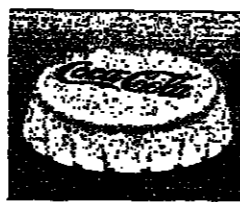


# FINANCIAL TIMES



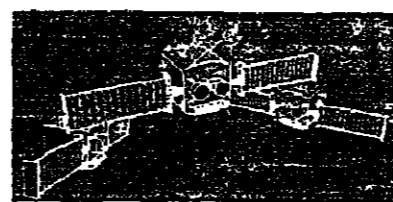
**France**  
How did it get  
into this state

Europa Column, Page 18



**Coca-Cola**  
Why shares  
are fizzing

Page 21



**Satellites**  
Size isn't  
everything

Technology, Page 15

**Today's surveys**  
Austria  
Business books

Separate Sections

## Europe consortium agrees interactive TV decoder deal

A group of leading German and French companies agreed on a standard for "set-top boxes" which decode television signals to allow telebanking, home learning and shopping, video on demand and other interactive TV services. Multimedia Betriebsgesellschaft, a consortium which includes Deutsche Telekom, Veba and Bertelsmann of Germany and the French media group Canal Plus, said the agreement was initially aimed at Germany, Europe's biggest cable and satellite television market. The deal ends months of secretive wrangling. Page 20

**Vital week for US budget talks:** The Clinton administration and the Republican-controlled Congress have begun what could be a decisive week in their protracted negotiations over how to balance the US federal budget over the next seven years. Page 6

**Bristol-Myers plans \$2.5bn cuts:** Bristol-Myers Squibb, the US pharmaceuticals group, announced a further round of cost-cutting to bolster profit margins in the face of patent expirations due in the coming years. Page 24

**Swedish paper group to invest in Canada:** Stora, the Swedish pulp and paper group, is spending \$650m (\$473m) on building a magazine paper plant in Canada in one of the biggest investments by a European company in the North American forestry sector. Page 22

**HSBC shakes up insurance side:** The Hongkong and Shanghai Banking Corp plans to reorganise its insurance activities in the Asia-Pacific region. Page 26

**Planned liability law may protect firms:** Lawyers, architects, surveyors, merchant bankers and doctors in partnerships will be able to take advantage of a new UK law designed to protect the personal assets of accountants from litigation. Page 14

**Austrian leader heads for re-election:** Franz Vranitzky appears headed for another term as Austria's chancellor after his Social Democratic party widened its lead in the final opinion poll to be published before Sunday's elections. Page 20; Survey, Separate section

**Madrid car bomb kills six:** A car bomb blamed by officials on Basque ETA separatists ripped through a busy Madrid district killing six people and injuring a dozen just four days before European Union leaders gather in the Spanish capital. Page 2

**SMC head favours several buyers:** The newly-appointed head of Societe Marseillaise de Credit, the regional French banking group, favours a sell-off to more than one investor in the bank's forthcoming privatisation. Page 21

**BTG loss less than expected:** BTG, the former British Technology Group which floated in July, reported maiden interim pre-tax losses of £2.1m (\$3.3m) compared with profits of £290,000. The figure was better than the £2.5m forecast at flotation. Page 29

**Unison shares fall 7% on warnings:** Unison Sactilor, the French steel producer privatised this year, saw its shares fall 7 per cent as it warned that second-half net profits would be less than the FF2.4bn (\$462m) recorded in the first six months of the year. Page 21; Lex, Page 20

**S Korea to open up telecoms sector:** South Korea said it will open its telecoms service industry to foreign ownership in 1998, although stakes held by overseas investors will be limited to minority shareholdings of up to 33 per cent. Page 12

**Britain to expel Libyan diplomat:** Britain ordered the expulsion of a senior Libyan diplomat in London, accusing him of spying and intimidating dissidents. Page 9

**French network to bid for UK rail:** SNCF, the French state-owned railway company, could acquire a stake in Britain's privatised rail freight network. Page 14

**Tokyo defends foreign goods records:** The Japanese government defended its record in government procurement of foreign products. Page 12

**Famine could strike N Korea:** South Korea's President Kim Young-sam warned that rapidly deteriorating conditions in North Korea, particularly a food shortage, could soon lead to a conflict. Page 8

**Prince Charles sells sports car for charity:** A private British collector paid £111,500 (\$170,000) for a 1987 Vantage-Volant Aston Martin sports car used by Prince Charles which he donated for sale at the auctioneers Sotheby's to benefit charity.

STOCK MARKET INDICES		GOLD	
New York Composite	+27.10	New York Gold	389.14
Dow Jones Ind. Av.	+183.96	Gold	389.14
NASDAQ Composite	+1.271		
Europe and Far East			
DAX40	+1.949.59		
FTSE 100	+22.72		
Nikkei	+18,226.78		
US LUNCHTIME RATES		DOLLAR	
Federal Funds	5.75%	New York Composite	1.5345
3-mth T-bill	5.47%	DM	1.44475
Long Bond	111.13	FF	1.4897
Yield	6.03%	Sw	1.18915
OTHER RATES		Sw	1.0105
UK 3-mth Interbank	8.75%	London	1.5337 (1.5274)
UK 10 yr Gilt	10.75%	DM	1.4416 (1.446)
France 10 yr OAT	106.5	FF	1.4897 (1.4815)
Germany 10 yr Bund	102.06	Sw	1.1892 (1.1775)
Japan 10 yr JGB	114.255	Sw	1.01185 (1.0125)
NORTH SEA OIL (August)		STERLING	
Brent 15-day (Jan)	\$17.72	DM	2.2145 (2.2116)
	(17.70)	Tokyo disk	¥101.065

Africa	South Africa	0.1300	Qatar	0.1300
Asia	China	0.1300	Ukraine	0.1300
Europe	Belgium	0.1300	USA	0.1300
Latin America	Brazil	0.1300		
Middle East	Israel	0.1300		
Oceania	Australia	0.1300		
Other	Canada	0.1300		
	Denmark	0.1300		
	France	0.1300		
	Germany	0.1300		
	Greece	0.1300		
	India	0.1300		
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	USA	0.1300		

## French PM freezes rail reforms ■ Unions plan more protests today

# Juppé offer fails to end strikes

By David Buchanan in Paris

Mr Alain Juppé, the French prime minister, yesterday made new concessions to union demands but failed in tense meetings with labour leaders to end the crippling 18-day strike against his proposed welfare reforms. Leaders of the unions, which will hold more protest marches today, emerged defiant about their demands and pessimistic about an early breakthrough. Mr Juppé announced he had put a "freeze" on his earlier plan to streamline the SNCF rail network over the next five years. Rail unions had objected to the plan's demands for productivity improvements. Mr Juppé said

"negotiations will start within the company on a future plan" designed to map out SNCF's operations over the 1998-2000 period.

Mr Juppé said he wanted further talks in an attempt to resolve the welfare dispute. He said he had asked Mr Jacques Barrot, the labour minister, to begin organising a meeting with unions next week, but did not make clear whether the welfare reforms would be open to talks.

Mr Louis Vianet, president of the CGT union federation, said he saw "no way out of the crisis for the moment". Mr Bernard Thibault, head of the CGT rail section which has spearheaded the 18-day rail strike, complained

that Mr Juppé was still "ambiguous" about reform of public sector pensions despite his promise on Sunday to leave railwaymen's retirement schemes untouched. Mr Marc Blondel, president of Force Ouvrière, said he urged Mr Juppé to launch "global negotiations", involving business as well as union organisations and embracing the issues of wages and unemployment as well as welfare reform.

But Mr Jean Gandois, president of the Patronat employers' federation, said his organisation was not prepared to attend such an economic summit with no precise or prepared agenda.

Signs of a government back-track on the reforms depressed

the financial markets, with the Paris Bourse's CAC-40 index ending the day 0.38 per cent down at 1,849.59 points and the franc falling to end trading in Paris at FF3.45 to the D-mark compared with FF3.44 at Friday's close.

The franc suffered as a result of the concessions which Mr Juppé announced on television on Sunday night, but some foreign exchange operators said the franc's losses were tempered by a realisation that while Mr Juppé had made concessions to the rail unions, he had not retreated from his key welfare reforms.

Opposition Socialists and their leftwing allies, who took five seats off the government parties in Sunday's by-elections to the

National Assembly, reacted furiously yesterday to Mr Juppé's announcement that he would this week push through enabling legislation for some of his welfare reforms by using a guillotine procedure cutting off further debate. Communist deputies complained of Mr Juppé's "diktat".

Opposition parties have tabled a censure motion to try to thwart Mr Juppé's legislation. But Mr Juppé will be able to use his very safe parliamentary majority to approve the legislation. This will enable the government to pass at

Continued on Page 20  
Juppé's budget. Page 3: Costly way to change. Page 18: French to bid for rail group. Page 14

## Agnelli chooses 72-year-old as next Fiat boss

By Robert Graham in Rome and Andrew Hill in Milan

Mr Giovanni Agnelli yesterday caused a surprise by announcing he would be succeeded as chairman of Fiat by Mr Cesare Romiti, the 72-year-old chief executive of the Turin-based automotive group.

The news comes less than a week after Turin magistrates requested Mr Romiti be sent for trial on three charges of alleged corruption related to the operations of Fiat subsidiaries.

Until now, those familiar with Fiat had believed that Mr Romiti would retire at the same time as his chairman, who is 74, to make way for a new generation to run Italy's largest private industrial group.

However, Mr Agnelli made it clear yesterday he regarded Mr Romiti's presence essential to preside over the "interregnum" as the next generation of managers and family members prepared to assume control.

The chairman also said he himself would be stepping down within the coming months.

Following this announcement, Mr Agnelli's departure was widely expected to coincide with Fiat's annual meeting in June 1998.

The impending elevation of Mr Romiti follows a series of high profile public appearances in which he has offered his prescriptions to resolve the country's political and economic problems. This prompted press speculation that Mr Romiti was preparing to leave Fiat to enter politics.

Mr Romiti, who joined Fiat in 1974, has been chief executive since 1976.

It was originally thought he would leave with Mr Agnelli in June last year and allow the latter's younger brother, Mr Umberto Agnelli, to take over. But the dramatic slump in Fiat's fortunes in 1993 obliged Mr Agnelli to change his mind.

In agreement with new non-family shareholders that included Deutsche Bank and Alcatel Alsthom, Mr Umberto Agnelli was excluded from the succession and the existing duo were kept on at the top with increased authority in the hands of Mr Romiti.

Mr Agnelli indicated then that he would be needed for at least another two years at the helm - Fiat's rules lay down compulsory retirement at 75.

Meanwhile, the line of eventual succession was pointed towards Umberto's eldest son, Mr Giovanni Alberto Agnelli, now aged 31 and on the Fiat board.

Two elements appear to have prompted Mr Agnelli to announce his departure. Fiat's fortunes, he feels, have changed and the group faces a period of solid growth with profits this



The UN and the Bosnian government intensified their efforts to reassure Serbs living in Sarajevo suburbs, as France said it was working intensively with its allies and Belgrade to secure the release of two cap-

tured pilots. An aide to French president Jacques Chirac said earlier French threats of punitive action against the Serbs had been suspended. The US administration said it was "very hopeful" that the pilots would be

free soon. Sarajevo's residents (above) demonstrated in support of the Muslim-led government's insistence on a united capital. Bosnian Serb leaders will hold a referendum today on the peace accord. Photo: Reuters

Continued on Page 20

## Clinton moves to restart Mideast peace negotiations

By Patti Waldmeir in Washington and David Gardner in London

US president Bill Clinton yesterday moved to break the deadlock in attempts by Israel and Syria to reach a peace settlement, announcing he would send Mr Warren Christopher, the secretary of state, to the Middle East later this week.

Mr Clinton agreed to the new peace shuttle after a meeting with Mr Shimon Peres, the new Israeli prime minister, at the White House, at which Mr Peres is understood to have outlined a new strategy for the stalled talks.

"We agree that to close the circle of peace it will take more intensive and more practical negotiations," Mr Clinton said. "Each side will need to make a greater effort to take into account the other's concerns."

Mr Peres, in a joint press conference with Mr Clinton, said that Israel wanted to go "full speed ahead" to resolve the two countries' differences.

The US president earlier spoke by telephone to Syrian president Hafez al-Assad, and said that the atmosphere for a settlement had improved.

"President Assad told me he was committed to do his best to

move the peace process forward," Mr Clinton said, and added his firm insistence that the security of Israel would remain a main pillar of US defence policy.

In June, Syria suspended talks with Israel in Washington over security arrangements on the Golan Heights in the event of an Israeli withdrawal.

Mr Peres yesterday refused to be drawn on the question of whether Israel is prepared to make a commitment to surrender all of the Golan Heights if its security concerns are met - an undertaking Damascus had demanded to restart talks.

The June talks were solely about security arrangements, and founded because of Israeli insistence on keeping an early warning station on the Golan after an unspecified withdrawal.

Suggestions of a compromise whereby US or international troops could man a monitoring station on the Heights were dismissed out of hand by Syria last month. "There will be no foreign presence on Syrian soil," Mr Abdel-Halim Khaddam, Syria's vice-president, said, adding "neither American, nor Russian, nor Chinese nor anything."

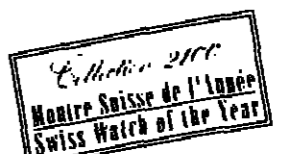
"President Assad told me he was committed to do his best to



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# Schüssel tries to shake up Austria's politics

The conservative politician who forced the country into its second election in 14 months talks to Ian Rodger in Vienna

Wolfgang Schüssel surprised himself and just about everyone else in Austria in October by breaking up the country's coalition government and forcing a second general election in 14 months.

A career politician, Mr Schüssel describes himself as Consensus Man with a feel for compromise solutions. He claims that he could see the makings of a compromise in the tortuous negotiations between his conservative People's party and the Social Democratic party in early autumn over reducing the 1996 budget deficit. But then the Social Democrats, under pressure from trade unions and left-

wingers, stiffened their opposition to cuts in social programmes and he had no choice but to walk out.

"We need a decision [by voters] so that the direction of budget and financial policy will be clear. Everybody knows what we have to do; the criteria for economic and monetary union are fixed. But it was impossible under the old government," Mr Schüssel said in an interview.

Social Democrat leaders agree that the budget deficit problem is "serious", as Mr Franz Vranitzky, the chancellor, puts it. But they say that Mr Schüssel walked out of the talks because of the rise in his party's popularity since he became leader in April. There was just a chance that the People's party could overtake the Social Democrats and wrest control of the government from them for the first time in 25 years.

Whatever the truth, with less than a week to go until the election on Sunday the two parties are still running fairly close to each other.

Mr Schüssel has conducted an effective campaign, even facing down the wily Jörg Haider, the Freedom party's populist leader, in a television debate.

By contrast, the Social Democrats have been dull, retreating to a purely defensive stance. The campaign's main issue - prudent public sector budgeting - is Mr Schüssel's

and he even has the two largest national newspapers behind him.

"The Social Democrats have ruled for 25 years and the people are used to it," Mr Schüssel said. "There has been a socialist trend in all the parties, and what I did is not the normal Austrian way. I do not speak softly about possible new gifts or bonuses. We [the People's party] also have a problem to explain why we were partners with the Social Democrats for nine years. We are blamed, too."

"I want more flexibility, more reform. I want to open parliament, to get out of the corset, to find free majorities. That is not the normal Austrian way. Ever since Empress Maria-Theresia, reforms have come from above. I want to try a bottom-up movement."

"People need time to think it over, to decide whether they can trust this man. Is he chancellor material?"

His big strategic gamble has been to refuse to rule out an association of some kind with the Freedom party, giving opponents an opportunity to portray him as unreliable.

He reasons that Freedom attracts voters who are fed up with the existing cosy coalition and respond to Mr Haider's withering criticisms of its abuses of power. But opinion polls consistently show that about half of Freedom party voters would not want the mercurial Mr Haider himself to be chancellor.

"I want to give these people an attractive offer, to give them confidence that I really want to change something," said Mr Schüssel. "Besides, it is better to offer something positive than to fight him."

He counters opponents' criticism by saying that there is no chance of Mr Haider himself holding a ministerial post because there would never be a parliamentary majority to ratify it.

Apart from a judicious trimming of social spending programmes, the main planks in Mr Schüssel's platform are closer security ties with other western European countries and more liberalisation and privatisation.

However, he champions a domestic solution for the long-running dispute over the completion of the privatisation of Creditanstalt-Bankverein, the country's second-largest bank.

This is in direct opposition to the plan put forward by the previous government to offer the state's 70 per cent voting stake to the highest international bidder. That offer had to be abandoned when the government collapsed in October.

Mr Schüssel said he wanted to see "an Austrian interest" maintained in a few important sectors, such as electricity, gas, oil and banking.

In the case of Creditanstalt, he was attracted to an offer made by a consortium of Austrian, German and Italian groups partly because it



Mr Wolfgang Schüssel (right) walked out of budget negotiations in the autumn with the Social Democrats of Chancellor Franz Vranitzky (left)

offered the opportunity to bring about much needed structural reform in the Austrian banking sector.

First Austrian, or Erste Österreichische Spar-Casse Bank, is a member of that consortium and is committed to taking a 7 per cent stake in Creditanstalt. "It would be a perfect co-operation. Creditanstalt is strong in commercial banking and internationally, especially in central and eastern European countries, while Erste has roots in Vienna and is strong in retail banking," Mr Schüssel said.

He pointed out that the consortium proposed buying only

about half of the government's stake, and to underwrite a secondary issue of the rest in the stock market. That meant that the majority of Creditanstalt shares would float freely among international investors.

The idea of a Creditanstalt-First Austrian alliance has been discussed increasingly in Vienna banking circles since First Austrian joined the bidding consortium led by the Generali insurance group of Trieste last year.

But a full merger of the two might be difficult for the proud Creditanstalt to accept. It is by far the larger bank, with more than Sch800bn (\$49bn) in total

assets compared with First Austrian's Sch236bn. But First Austrian is 100 per cent owned by a Vienna foundation, which would probably emerge as the combined group's largest shareholder.

Mr Schüssel seems unconcerned about the likelihood of more stress and strife in Austria's public life after next Sunday's election.

"My predecessor used to complain that Austrians have a tendency to make compromises even before conflicts emerge. I think we are moving in a positive direction, towards European normality, with normal conflicts."

## Madrid car bomb blamed on Eta

By David White in Madrid

Basque separatists brought their intermittent terror campaign back to the streets of Madrid yesterday with a car bomb attack in which six people died and about 20 were injured, several seriously.

The bomb, which went off just before 3pm in a busy area in the south-east of the capital, destroyed a van belonging to the Spanish navy. All the dead were reported to be civilian staff working for the navy.

It was the bloodiest terrorist attack in Spain for more than two years and only days before European Union heads of state and government were due to gather in Madrid for a summit starting on Friday.

Interior ministry officials said "all signs" indicated that the attack was the work of Eta, the illegal Basque independence organisation. It followed two earlier car bombs in Madrid this year, including a failed assassination attempt in April on Mr José María Aznar, leader of the conservative opposition Popular party, who is tipped to become prime minister next year.

Yesterday's attack brings to 13 the number of deaths attributed to Eta this year. The attack appears to confirm that Eta has been able to maintain an operating base in Madrid as well as in parts of the Basque region.

Following a series of arrests on both the French and Spanish sides of the border, Eta is believed to have been reduced to a few dozen hard-core terrorists and to be concentrating its efforts on a limited number of attacks, selected for their spectacular effect. It is feared the organisation may build up its campaign around the time of the general election scheduled for March in an attempt to bring pressure against a new government. The aim would be either to force negotiations on a settlement or to provoke a heavy-handed crackdown, which could have the effect of reinforcing support for Eta within the Basque region.

## Winter poll campaign leaves most Turks cold

By John Berham in Ankara

It is hard to tell that Turkey is less than two weeks from a crucial election. The streets are devoid of banners, posters, campaign jingles and convoys of cars decorated with party colours.

Bitter winter weather does damp enthusiasm and the growth of television is reducing the importance of rallies, but there is no mistaking the country's mood of near total indifference to the December 24 poll.

Attempts by Mrs Tansu Çiller, the prime minister, to whip up enthusi-

asm at election rallies have fallen flat. Last week in Diyarbakir, regional capital of the mainly Kurdish southeast, she faced a small, bored crowd.

"I came to ask you for your support," she said. "I take my strength from you! Trust me! But only a small group of flag-waving supporters showed any reaction. One onlooker who refused to give his name said: 'I just came to watch. I have nothing else to do. I am unemployed.' He said he would vote for Hadep, a party campaigning for Kurdish rights."

Fighting between the guerrillas of the Kurdistan Workers party (PKK)

and government forces has raged for 11 years, causing some 20,000 deaths and forcing millions of people from their homes. So it is hardly surprising that Mrs Çiller should face a cold reception in Diyarbakir.

But she has confronted equally sullen crowds at other venues. She kicked off her campaign in Erzurum, the city where Kemal Atatürk began his struggle to create a modern republic. Now Erzurum is a stronghold of the Islamic fundamentalist Refah party and Mrs Çiller attracted a crowd of only 3,000. A rally in the southern city of Antalya, where left-

wing parties are strong, also flopped.

Opinion polls indicate her conservative True Path party is trailing Refah, which has about 30-32 per cent of the vote, and the opposition conservative Motherland party. Mainstream parties will probably form a coalition to shut Refah out of power if it wins, but its advance still represents a significant challenge to one of the Moslem world's few secular democracies.

Voters blame Mrs Çiller for heavy inflation, falling living standards and widespread corruption, but it is too early to write her off. An effective campaigner, she transmits vitality

and warmth, and her blonde good looks contrast starkly with her dour, male opponents. Mr Mesut Yilmaz, the Motherland party's uncharismatic leader, is a dull speaker.

Outside the southeast, Mrs Çiller's ferocious opposition to Kurdish separatism is a powerful election weapon, and voters see her as a symbol of modernisation and progress. Tomorrow, the European parliament is expected to ratify a customs union between the European Union and Turkey. Party propaganda already portrays her as "the woman who took Turkey into Europe."

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## EUROPEAN NEWS DIGEST

## Thyssen loses top executive

Mr Hans Jakob Zimmermann, a leading executive at Thyssen, the German steel and engineering conglomerate, has been forced to resign in the latest of a series of scandals involving senior German executives.

Mr Zimmermann, who was expected to become chief executive of Thyssen's biggest division early next year, resigned last week following an anonymous letter to Mr Heinz Kriwet, Thyssen's chief executive. It emerged he had used company services from Hochtief, the German construction group which earlier this year was caught up in a similar scandal at Opel, the auto group.

The public prosecutor in Düsseldorf is considering bringing fraud charges against Mr Zimmermann. Executives at companies including Opel, Mannesmann and most recently Giesecke & Devrient, the company which prints Germany's banknotes, have recently been caught up in scandals.

According to a report in the news magazine, Der Spiegel, Hochtief rebuilt Mr Zimmermann's villa in Essen for DM500,000 (\$246,000) when the job should have cost DM782,000. A number of companies which provided services for the villa were linked to Thyssen Schulte, one of the companies Mr Zimmermann was responsible for. Hochtief yesterday denied all allegations of wrongdoing.

Michael Lindemann, Bonn

## Papandreou suffers relapse

Mr Andreas Papandreou, Greece's prime minister, was reported to be in critical condition yesterday with a new infection. A spokesman for the Onaseion Cardiac Hospital, where he has been in intensive care for three weeks, said the premier appeared to be suffering from a "hospital infection".

Mr Papandreou's condition had appeared to be improving. He was no longer on a respirator and had been able to talk to his wife, Dimitra, for the first time yesterday. The improvement had encouraged officials of the governing Pan-Hellenic Socialist Movement to speculate that "he would be out of hospital by Christmas and would be able to resume his duties. However, Pasok now faces deepening divisions between those who want to replace Mr Papandreou immediately and party stalwarts who are determined to wait for him to resign.

Kerim Hope, Athens

## Turkish army purges Islamists

Turkey's general staff yesterday dismissed 50 servicemen suspected of involvement in radical Islamic politics. According to press reports, the general staff will purge another 2,000 soldiers after general elections on December 24.

Radical Islamists are frequently accused of attempting to penetrate the armed forces and the generals have staged purges several times before.

Analysts said yesterday's removal of 18 officers and 32 NCOs was intended as a warning to Refah, the radical Islamic party leading in opinion polls, that the army would tolerate no deviation from Turkey's secular and pro-western traditions.

However, observers dismissed fears that the army, which has carried out three coups d'état in recent times, would intervene to prevent Refah coming to power. Refah, which seeks to establish an Islamic state, is expected to take about 20-22 per cent of the vote, more than any other party. This could give it about a third of the seats in parliament, but mainstream parties are expected to form a coalition to keep Refah from taking power.

John Barham, Ankara

## Dutch PM optimistic on Emu

Mr Wim Kok, the Dutch prime minister, said yesterday he was optimistic the Netherlands would be able to bring down its public debt, raising the country's chances of joining a single European currency in 1999.

The Netherlands already meets many of the criteria for European monetary union, such as low inflation and interest rates. But its public debt, projected to stand at 78.4 per cent of gross domestic product in 1996, down just 0.3 percentage points from 1995, is well above the Emu target of 60 per cent. But the country would be able to qualify if it showed it was making progress on cutting debt. "Nobody in the Netherlands believes that you can achieve a reduction to 60 per cent in a year or two. But that is not even necessary [for Emu participation]," Mr Kok said.

Ronald van de Krol, Amsterdam

## Hungary debates media reform

Hungary's parliament last night began debate on a bill designed to liberalise and provide a new regulatory framework for the broadcast media.

Under the draft law, the state's second television channel and a presently unused former Soviet channel, as well as Radio Danubius, a popular radio station, will be offered to private investors on a concession basis for 10 years.

A number of radio frequencies will also be offered to the private sector. The state, however, intends to retain control of MTV1, the main national television channel, and Duma TV, a satellite channel.

Virginia Marsh, Budapest

## Car sales up 12.5% in Italy

Italian new car registrations rose 12.5 per cent in November from the same month of 1994, reversing a trend of declines, the Transport Ministry said yesterday. Some 149,600 new cars were registered, against 132,978 a year ago. The rise, after eight months of falling registrations, followed a year-on-year decline of 8.9 per cent in October. The ministry said registrations were up 1.3 per cent in the first 11 months compared with the same period last year.

Among foreign producers, Volkswagen was the biggest seller in November. Its market share rose to 7.82 per cent from 5.1 per cent in November 1994. Ford came next, although its market share fell to 6.42 per cent from 8.96 per cent previously.

AP-DJ, Rome

France's consumer prices rose 0.2 per cent in November compared with October, bringing year-on-year inflation to 2 per cent, according to preliminary estimates, the government said.

Belgium's current account surplus rose to BF229bn (\$7.7bn) in the first half from BF189bn a year earlier, the central bank said.

Norway's consumer price index fell 0.1 per cent to November 15 from October 15, bringing year-on-year inflation to 2.1 per cent, the country's state statistics agency said.

FINANCE & LEASING ASSOCIATION  
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1995 PRIZE WINNERS

Mr John Bridgeman, Director General of the Office of Fair Trading, will today present the prestigious F.L.A. Diploma Examination prizes at the Savoy Hotel, The Strand, London. The Diploma is the prime industry qualification for those working in consumer credit, business credit, financial and leasing or credit cards.

The 1995 prize winners are:

(Sir Hugh Ferguson Jones Memorial Prize)

Melanie Jensen, OKO Finance Ltd

Jennifer Fairbairn, Lombard North Central PLC

Adil Abdal, OKO Finance Ltd

(John Hockell Memorial Prize)

Lesley Cox, Yorkshire Bank Retail Services Ltd

(F.L.A. Council Prize)

Tanya Holliday, Chartered Trust Plc

(Gordon Chad Case Prize)

Michael Patterson, Chartered Trust Plc

(Chairman's Prize)

Louise Wilson, GVD Finance Ltd

(Executive Board Prize)

Paul Juler, Barclays Mercantile Business Finance

(A.V. Jones Award Memorial Prize)

Jonathan Gals, Vauxhall Finance

(The F.L.A. Higher Diploma Prize)

Anthony Wedlake, Chartered Trust Plc



## Juppé's budget arithmetic still on track

David Buchan analyses the French premier's selective appeasement

A laudable Juppé "has not yet eaten his hat, but he has eaten the rim of it", wrote Mr Serge July, editor of the Liberation newspaper, after France's prime minister made concessions to appease the strikers against his welfare reforms.

The changes, on public sector pensions and on reforming the SNCF railway, are so far relatively minor, which is partly why he has made them.

They do not in themselves greatly increase the arithmetic challenge of bringing France's public deficits from more than 5 per cent of national output this year to 3 per cent by 1997, which would allow the country to be in at the start of European monetary union.

But the unions may yet succeed - to pursue Mr July's metaphor - in ramming the rest of Mr Juppé's welfare reforms down his throat. Most union leaders came out of talks with the prime minister yesterday distinctly unmollified, and refused to call off today's strike action.

Mr Juppé's new strategy of selective appeasement is to ditch two aspects of public sector reform which provoked the most anger among strikers but which were financially marginal to his welfare reform plan, announced last month.

Following Mr Juppé's promise that SNCF rail and Paris's RATP metro/bus drivers can

continue to draw full pensions at 50 and his "suspension" of the Le Vert commission's study into lengthening pension contributions for state employees in general reform of public pensions looks most unlikely.

But this reform never entered Mr Juppé's calculations of how he was going to slice the overall social security deficit from FF60bn (\$12bn) this year to FF17bn next year. For this, he was only banking on the 1993 reform - already under way - of the state pension fund for private employees.

Mr Juppé still plans to push his reform of the three legs - health insurance, family allow-

ances and pensions - of the social security system's "general regime" through parliament. He seemed undeterred by the loss of five National Assembly seats, including a Rhône valley constituency held by the right since 1945, in by-elections on Sunday. He is now to use a parliamentary "guillotine" procedure - bringing an abrupt end to debate - in order to pass enabling legislation this week.

But this year's social security deficit, though big and getting bigger, is still less than a fifth of this year's FF322bn budget deficit. It is thus puzzling that Mr Juppé should have put so much stress on

wiping out the social security deficit, even to the extent of planning an FF11bn surplus in 1997.

He may have been goaded by criticism that his first six months of power produced no structural reforms. He may also have wanted to capitalise on the public's general expectation that social security accounts should, in principle, balance, which no one expects of budgets. Next year's budget deficit is set at FF287.8bn, but the economic damage done by the strikes will make that target all the harder to hit.

One last concession made by Mr Juppé on Sunday night may come back to haunt him.

To calm union fears of rampant privatisation, the government is to propose a constitutional amendment that would guarantee "equality of access and quality" of public services.

The general idea is to entrench opposition to European deregulation of France's public services. But the only specific threat which the government wants to ward off is deregulation of Electricité de France; even with the sister company of Gaz de France, the government seems open to some partial privatisation. In sectors where he wants to see liberalisation, however, Mr Juppé may find it awkward to have unions invoking "equality of access and quality" to bolster their opposition to his plans.

## Retail big-hitters trade blows in 'cultural' clash

By Andrew Jack in Paris

One of France's top book and record retailers yesterday started legal action against a leading rival which it claims is unfairly copying its pioneering approach to sales.

FNAC, part of the large Pinault Printemps Redoute retail group, confirmed it was suing Leclerc, a retail chain which has been placing increasing emphasis on new ways of selling

books and records. FNAC is trying to defend the idea of "cultural spaces" which it pioneered more than 15 years ago as a way of luring prospective purchasers into its stores to buy goods.

All of its 45 outlets in France and some in other countries have a similar approach: a space at the entrance to the shops and normally an auditorium where it holds exhibitions, concerts and

discussions linked to its goods. It argues that the idea is linked more broadly to a style of presentation of "cultural products" on sale in its stores, including signs, colours and arrangement of shelves.

However, Leclerc, which is now marketing itself as the second largest bookseller in France after FNAC, has also started introducing cultural areas in its stores, and says it is planning to create 80 of

them over the next five years. FNAC charges in its action, which is due to be heard in the French courts on December 20, that Leclerc is simply copying, in a move that is detrimental to the spirit of healthy competition.

Mr Michel-Edouard Leclerc, co-chairman of Leclerc, dismissed the action, calling it "completely stupid and... a defensive reaction of a company which senses its

monopoly being threatened". He said that what FNAC found really frustrating was that Leclerc was changing from becoming simply book merchants into "real professional book-sellers".

But he stressed that his group's approach was different, using colours which were not the same as those of FNAC and selling in smaller stores in suburbs and smaller towns "deserted by FNAC". He said:

"FNAC forgets that it is not an institution but a company which must accept competition."

Leclerc says it now derives FF1.2bn (\$158m) in annual sales from books, CDs, records, videos and computers. FNAC says it has 23 per cent of the French market for records and 13 per cent for books - which account for nearly FF2bn of its FF9.5bn annual turnover.

## For \$399, Evan Kourambas finally found the Fountain of Youth.



As a computer graphics designer, Evan Kourambas had just seen his studio spend a million dollars on state of the art visual effects like morphing. It aged him.

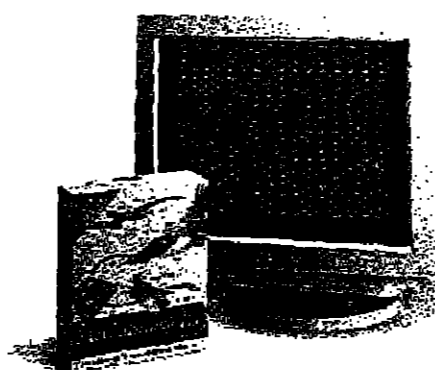
That was before he went to Taiwan and met an unusual software company, Ulead Systems. They showed him their Media Studio Pro, the world's first complete digital video and audio editing software for PCs.

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Ulead's Media Studio Pro is displayed beside another Symbol of Excellence winner, the AcerView 96i color monitor.

Last Soviet republic falls to democracy

# Belarus finally elects its first parliament

By Matthew Kaminicki in Moscow

Voters in Belarus have rejected President Alexander Lukashenko's call for one-man rule by electing the country's first post-Soviet parliament.

Election results released yesterday showed 59 more deputies were elected, joining 139 picked over the past six months to exceed by 24 the two-thirds of the 260-seat chamber needed for a quorum. The previous incapacitated assembly had left Belarus as the only former Soviet republic yet to elect a parliament after the fall of communism.

There is now likely to be a struggle for power between the president and the parliament.

A requirement for a 50 per cent turnout had invalidated the vote in many constituencies in the first two rounds of elections in May, leaving Belarus with only 119 MPs. Another 20 MPs emerged in the first round of the second elections last month.

Mr Lukashenko had threatened to impose direct presidential rule if the latest elections failed to deliver a parliament. His tight restrictions on campaigning, with limited election expenses and no access for candidates to national media, as well as open attacks on the democratic process, prompted strong criticism from western observers and united the political opposition.

"Democracy has been seriously scarred, and now it's time for the healing process to begin," said Mr Stanislaus Shushkevich, the country's first post-Soviet leader, forced to resign in 1994, who won a seat on Sunday. "Given the monstrous conditions of the campaign, this was an amazing outcome and completely unexpected."

Mr Mecheslav Grib, who is speaker of the outgoing parliament and who has been leading opposition to Mr Lukashenko, described the outcome as "a victory for democracy".

"Thank you to our citizens for fulfilling their civic duty

despite all the obstacles placed in their path," Mr Grib said.

Nationwide turnout in the country of 10m inhabitants was 52.4 per cent, after a surprisingly high 61 per cent for the first round on November 29, despite what a European Parliament observer called the president's attempts to "sabotage" the election.

Analysts in Minsk, the Belarus capital, said growing frustration with Mr Lukashenko's

**'The president has difficulty accepting compromise and a democratic opposition. His instincts are essentially Bolshevik'**

increasingly dictatorial style, steadily falling living standards and broken political promises probably brought the country's usually quiescent and conservative voters out to the polls.

The communists and their Agrarian allies will be the biggest single grouping, with about 80 seats. About half the seats are held by independents, usually from the old communist establishment. Along with Mr Shushkevich, other moderately progressive candidates to win seats included Mr Stanislaus Bohdankevich, the ex-chairman of the country's central bank who last year led the fight against a campaign led by the president for a currency union with Russia.

More elections may be called next spring to fill the remaining seats.

Belarus's weak democratic institutions and traditions allowed Mr Lukashenko to rule by dictat, ignoring the country's highest court and cracking down on free trade unions. Leading politicians in Minsk

forecast that Mr Lukashenko would let parliament meet, but there were likely to be battles ahead over the three main questions facing Belarus - division of power between president and parliament and between the legislature and judiciary, economic reform and relations with Russia.

"The president is charismatic, a very powerful force who has difficulty accepting the idea of compromise and a democratic opposition," said a western diplomat in Minsk. "His political instincts are essentially Bolshevik."

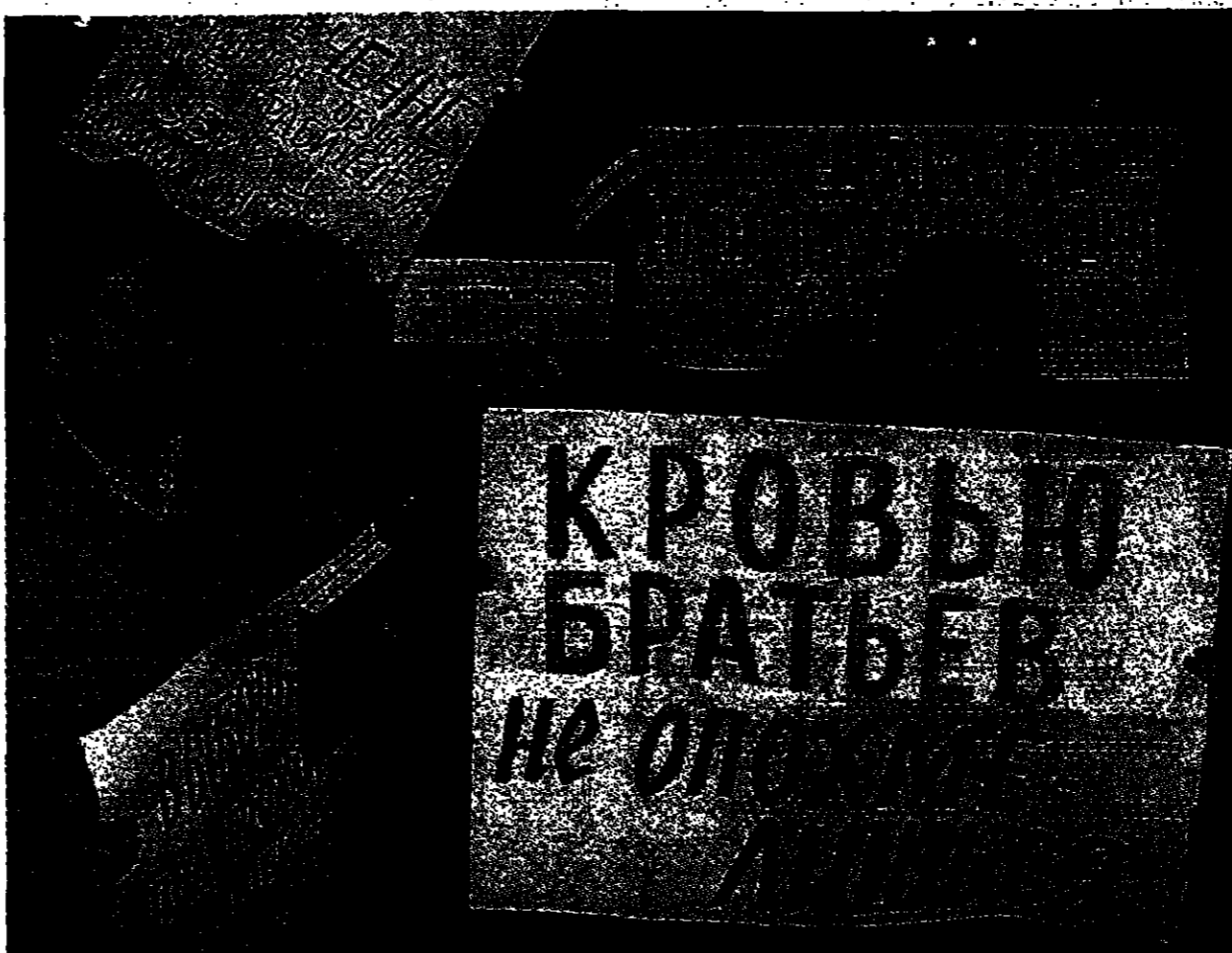
A mercurial collective farm boss, Mr Lukashenko wavers between strong economic co-operation to outright political union with Russia, under the guise of a super-Slavic state also incorporating Ukraine. His pro-Moscow stance, popular in a country with a weak national identity, is sometimes used to delay economic restructuring.

President Lukashenko put a brave face on the result. The presidential spokesman, Mr Vladimir Zametlin, said the president was "particularly happy about the election".

Some hope that closer contacts with Russia could force Belarus to reform, but the country's neighbours are concerned that Minsk's reluctance to get its economy in order and strengthen its independence might destabilise the region - particularly if willingness to reunite with Moscow gives encouragement to nationalist communist groups expected to do well in Russian elections.

Other prominent opponents of President Lukashenko to win seats in the latest voting were the former deputy prime minister, Mr Viktor Gonchar, and the former foreign minister, Mr Pyotr Kravchenko.

The Popular Front, which champions the Belarusian language and traditions against Russian influence, failed to elect a single member. Most of their hopefuls were running in Minsk where 23 districts remain unrepresented because of low turnout.



Demonstrators keeping a vigil in the centre of Moscow yesterday to mark the first anniversary of Russia's military intervention in the breakaway region of Chechnya. The placard (front right) reads: 'Brothers' blood cannot cure a hangover'.

## Chechen shadow over Russian poll

By Chrystia Freeland in Moscow

Less than a week ahead of parliamentary elections, the Russian government was faced with an unwelcome reminder of one of its most discredited decisions as up to 10,000 demonstrators yesterday took to the streets of Chechnya's capital, Grozny, to demand a complete pull-out of Russian troops from the separatist region.

There was also a Chechen peace rally in the centre of Moscow. The protests, which marked the first anniversary of the Russian invasion, are the most recent indication that Moscow's attempt to legitimise its presence in breakaway Chechnya by holding local elections on Sunday is unlikely to succeed. They also provided additional ammunition for opposition politicians who are expected to benefit in Sunday's nationwide parliamentary elections from widespread public dissatisfaction with the present government.

Mr Alexander Lebed, the former general and charismatic leader of the Congress of Russian Communities, a newly formed nationalist party, expected to do well in the polls, yesterday insisted that elections

cannot be held "while a war is going on". He also warned that "falsification of the results will be inevitable".

At the opposite end of the political spectrum, a group of Russia's leading human rights organisations yesterday released a public appeal to the Kremlin warning that a new round of fighting would be provoked unless the elections were cancelled in Chechnya.

"The firm intention of the federal executive to hold these elections means that the president and the government of Russia have dropped the idea of political talks in Chechnya," the human rights groups said. "The resumption of large-scale military activities will be the result."

But Mr Victor Chernomyrdin, the Russian prime minister and party leader of Our Home is Russia, the pro-government grouping contesting the election, maintained a brave face. In an interview with the CNN satellite news channel, Mr Chernomyrdin insisted that communists would not take control of the government after Sunday's vote and that there would be no change to the course of economic reforms

he has charted. "Communists will probably take more seats than they have now, but there will be no victory," Mr Chernomyrdin said, according to a transcript obtained by Reuters. Asked if communists would reverse economic reforms he said "there will be no change".

However, Mr Chernomyrdin's ability to get out on the streets and swing the large numbers of undecided voters, whose eleventh-hour decisions are expected to be crucial, will be hampered by his planned trip to Paris at the end of this week to represent Russia at the Bosnian peace treaty signing ceremony.

Some Russian observers have questioned the decision by Mr Boris Yeltsin, the Russian president, to have Mr Chernomyrdin away from Moscow in the critical final days before the vote.

In addition to missing the winding up of the election campaign, some Russian observers have warned that by attending the Paris ceremony Mr Chernomyrdin risked being linked in voters' minds to an agreement which many Russians feel is a fundamental betrayal of their nation's security interests.

## Ukraine's PM takes fight to hardliners

By Matthew Kaminicki

Mr Evhen Marchuk, the Ukrainian prime minister, won a seat in Kiev's parliament on Sunday in a potential challenge to the chamber's communist leadership.

Only six other deputies were elected in Sunday's by-elections for 45 vacant seats in the 460-seat parliament. Run-offs will be held later this month in 11 constituencies where the turnout met the 50 per cent requirement but no candidate received an absolute majority.

Mr Anatoly Frankchuk, the former prime minister of Crimea, who was ousted last week by the autonomous republic's parliament, also won a seat along with his son, Igor.

Mr Ivan Yemetz, the head of the Electoral Commission, said an average of 46 per cent of registered voters cast ballots on Sunday. The lowest turnout was in the capital, Kiev, and the highest was in Crimea.

Sunday's vote was the first held since last May when the authorities said the government was spending too much money on elections and called a six-month moratorium on balloting.

As reforms falter and feuding intensifies between parliament, president and government, prime minister Marchuk yesterday appeared to vent his frustration with President Leonid Kuchma, who had recently criticised him. "People are tired of indecision and vagueness over how jobs are divided up in government," Mr Marchuk said.

Analysts in Kiev believe Mr Marchuk might try to replace the hardline speaker of parliament, Mr Oleksandr Moroz, and leave the prime minister's ship - which would free him of responsibility for government failures and better place him to run for the presidency.

Ukraine's parliament presently exhibits a delicate balance between diverse political forces. There are about 180 communists and socialists and a roughly equal number of reformers, while the rest have no serious ties to either side.

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fight to  
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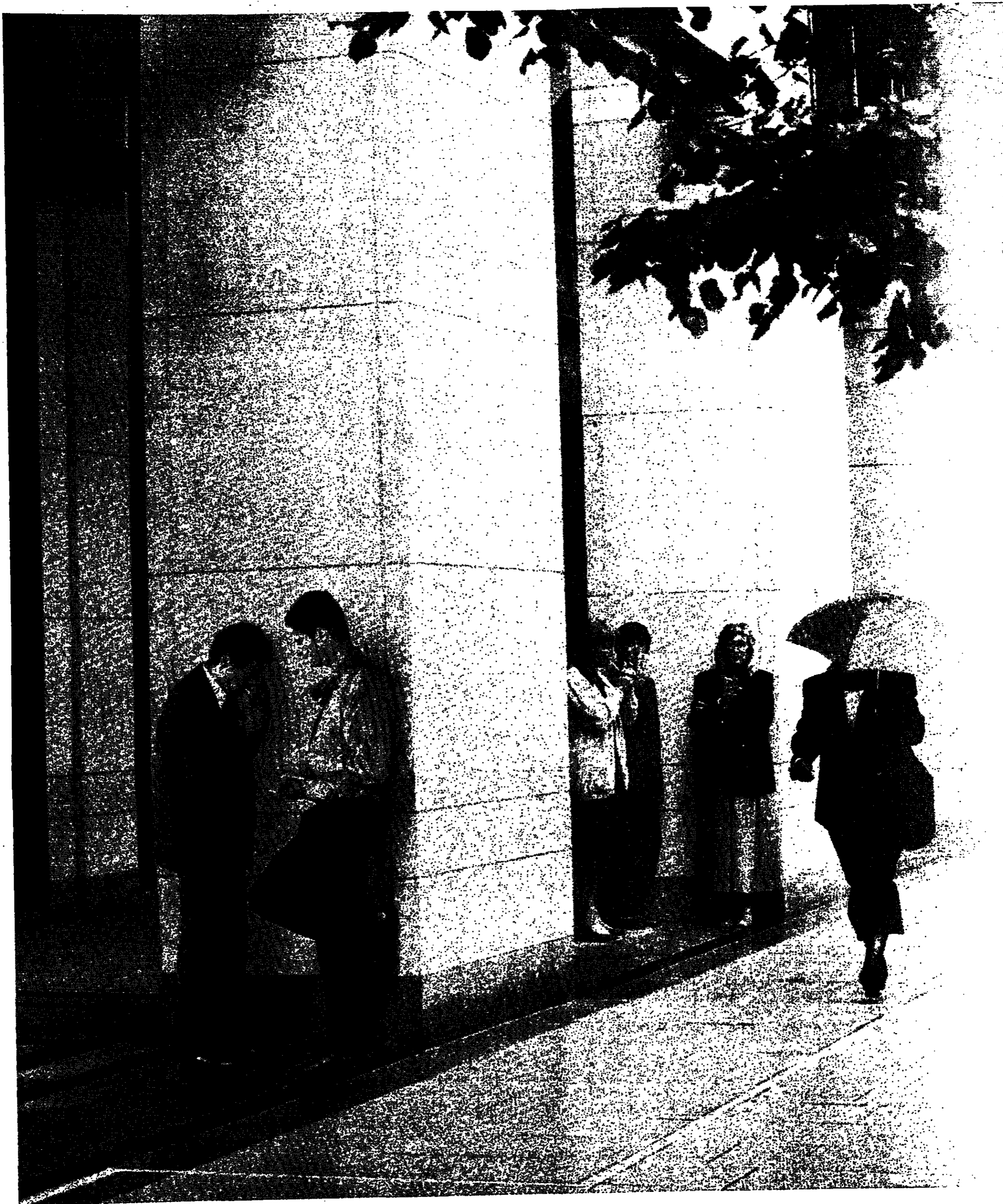


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## NEWS: ASIA-PACIFIC

## Japan's loans: the bad and the ugly

Gangsters have managed to muscle in on the financial crisis, writes Emiko Terazono

Japan's finance ministry, having persuaded the government, the banks and the public to undertake a rescue mission for the country's financial system, now has to sort out another industrial body - the *yakuza*, or gangsters.

Japanese banks are discovering that the careless lending during the "bubble" era of the late-1980s is coming back to haunt them.

Crime organisations were involved in property projects around the country, and now banks are also having to face gangsters, adept in legal and financial skills, who have taken over bankrupt companies and their debts.

The ministry says it cannot accurately estimate the total loans linked to the *yakuza* as the country's banks are reluctant to provide such estimates. But Mr Rainsuke Miyawaki, a former director of the National Police Agency's criminal investigation bureau, believes that about 10 per cent of the banks' bad loans are gangster related, with another 30 per cent with probable links to crime.

Mr Sei Nakai, deputy director general of the ministry's banking bureau, concedes that a significant number of loans linked to organised crime have made the collection of those loans "complicated".



Gangsters at the funeral of one of their chieftains: also adept at legal and financial skills

Japan's crime syndicates started to play an increasing role in the "formal" economy during the stock and property boom of the late 1980s.

Some played the stock market, buying companies by cornering their stock, while others set up front companies which dabbled in the property market or became non-bank financial institutions lending on funds eagerly lent out by banks and their financial affiliates during the era of easy money.

The *yakuza* were also widely involved in helping companies and financial institutions' land speculation by intimidating landowners reluctant to sell.

"The bubble ripped open the wall between the informal and formal economies," says Mr

Koyo Ozeki, analyst at Ibc, the credit rating agency.

With the downturn of the economy, an increasing number of the crime syndicates focused on ailing or bankrupt companies, and banks suddenly found that instead of the companies to whom they originally extended loans, they were having to deal with gangsters.

Their methods included collateralising property assets already collateralised by other creditors, and subsequently refusing to agree to the sale of the property unless given a substantial pay-off, or shouldering bank loans from defunct companies or those on the verge of collapse for a commission and then refusing to repay

the banks by declaring themselves bankrupt.

Another technique was simply to take over office buildings of defunct corporations or property put in as collateral, making it impossible for the banks to auction them off.

"Due to the involvement of the *yakuza*, the loans in effect became non-performing," says Mr Ozeki. Bad loan collectors are more than reluctant to try to barter with the crime syndicates.

A series of killings of corporate executives - including a senior executive in charge of collecting bad loans at Sumitomo Bank and a vice president of Daiwa Bank in 1993 - thought to be linked to the *yakuza* over the past few years

have highlighted the risks of having to negotiate with crime organisations.

However the ministry of finance has only just acknowledged the need for police involvement in resolving the predicament.

The police on the other hand say they cannot prevent or solve the crimes unless requested by the banks or companies. Mr Miyawaki, says the police are unequipped to handle the gangsters' involvement in the bad loans crisis.

Financial analysts warn that the problem could drag on. Although half-year financial figures announced last month revealed that the banks were aggressively writing off their bad loans, the institutions have chosen to build up loan loss reserves rather than liquidate the property collateral.

"Even if loss reserves are increased and the loan effectively written off, the financial institution's connections to the asset and organised crime will remain," says Ibc's Mr Ozeki.

"Fiddling with figures is not good enough," says Mr Katsuyuki Kinnagai, general manager at Tadokori Data Bank, a private corporate credit data research company. "It does not free up the property market for new transactions and development."

## Famine could strike N Korea next spring

By John Burton in Seoul

South Korea's President Kim Young-sam warned yesterday that rapidly deteriorating conditions in North Korea, particularly a food shortage, could soon lead to a conflict. "The North is starving, poor and lacks energy" and "looks like a disabled airplane" that could crash and kill thousands.

It was the most ominous reference yet by the Seoul government to the threat of political instability on the Korean peninsula as reports trickle out from international aid workers in North Korea that the country appears headed for a famine by early next spring.

Defence officials in Seoul have already expressed worries that the worsening food shortage could trigger a North Korean "military provocation" against South Korea this winter in a last desperate attempt by Pyongyang to save itself from collapse.

Some analysts dismiss the warnings as alarmist, but a threatened famine could cause food riots and other civil unrest or lead to a palace coup by the hardline military against Mr Kim Jong-il, the de facto North Korean leader. Pyongyang technocrats, who

North Korea yesterday angrily took the US to task for spreading a "false rumour" that Pyongyang posed a threat to South Korea and Japan. A Foreign Ministry official warned a "military confrontation" could develop and the country would have to take counter-measures if the US did not stop the rumours and drop its policy of hostility.

Favour a gradual opening of the isolated country, might be discredited and lose power if international donors fail to respond adequately to the food crisis and instead, allow North Korea to starve.

North Korea, once self-sufficient in food, has suffered from growing grain shortages in the 1990s due to an inefficient agricultural system, bad harvests, and the end of aid from the former Soviet Union. The worst floods in a century last summer severely exacerbated the problem as North Korea's best farmland was inundated.

North Korean claims about the scale of the flood damage were initially treated with scepticism by the outside world. Pyongyang said 5m people, almost a quarter of the population, were affected by the floods, which it claimed caused \$15m (\$9.5bn) in damage and left 100,000 families homeless.

Many foreign observers believed North Korea was exaggerating the flood damage to gain free international food aid because it had run out of hard currency to buy grain supplies from abroad. Thailand recently refused to ship more rice to North Korea because Pyongyang had not paid for previous supplies.

Some Seoul officials suspect emergency rice supplies recently provided by South Korea and Japan in a humanitarian gesture have been diverted to feed the military instead of civilians.

The international response to North Korea's request for food aid has been cautious. Pledges of emergency support amount to \$15m, which is close to meeting an initial target of \$15m set by the United Nations, but most of that aid has not yet appeared.

Doubts remain on whether the promised aid is enough to see North Korea through the winter. International aid is falling far short of the amount needed, according to Mr Trevor Page, United Nations World Food Programme representative in Pyongyang.

Uncertainty still exists about the extent of the food shortage. Korean estimates of the overall grain shortfall range from 2.3m to 3.6m tonnes out of a total

demand of 6.2m tonnes. The UN World Food Programme has promised to provide \$25m-worth of rice and cooking oil, while other aid is coming from private charities such as Médecins sans Frontières of France and World Vision of the US. This is in addition to 150,000 tonnes of rice supplied by South Korea in the summer, and 600,000 tonnes being delivered by Japan.

US officials, worried about the political instability the food shortages could cause, are encouraging private efforts to relieve the threatened famine. But Washington has made an official contribution of only \$25,000 to the cause. Relief agencies, representatives, and the North Korean interior, describe a gloomy picture of conditions there.

Some families made homeless by the floods are taking shelter in makeshift structures of plastic sheeting as they prepare to survive what is predicted to be the coldest winter in a decade. One International Red Cross official recently in North Korea said the food shortage "has reached a near-critical situation".

People have been seen scavenging in the fields looking for roots and wild plants. Children are showing signs of malnutrition. Despite such reports, South Korean officials are hesitating to offer more aid unless Pyongyang resumes regular dialogue with Seoul.

The South Korean government was heavily criticised for this summer's rice shipment because it did not bring any political concessions in return. As part of efforts to repair frayed ties with South Korea, Japan recently promised not to provide more rice aid to North Korea unless Seoul approves the delivery.

But Seoul could relax its present tough attitude if circumstances warrant. "The bottom line is to prevent North Korea collapsing. We might give aid if the situation appears truly desperate," one foreign ministry official said.

Even if North Korea survives this winter without starving, it will probably have to continue to rely on international food aid.

Its agriculture is in bad shape. Arable land is limited. Productivity is poor and growing worse. Fertiliser supplies have fallen as production is affected by shortages. Farmland is covered by sand and mud; terraced slopes have been washed away.

In the absence of agricultural reforms and incentives for increased farm production, North Korea's food problems will remain acute.

## ASIA-PACIFIC NEWS DIGEST

## Japan seeks to calm N-plant fears

Japanese officials yesterday tried to allay fears over nuclear safety as the clean-up of the country's experimental prototype fast-breeder nuclear reactor started, following a coolant leakage. "The accident fell within a range of predictions," Mr Tomio Tsutsumi, vice-minister of international trade and industry, said. Monju, the fast breeder reactor at the centre of Japan's plutonium recycling programme, was shut down last Friday following a leakage of two to three tonnes of liquid sodium coolant used in the primary cooling system.

The incident would not affect Japan's plutonium policy, Mr Tsutsumi added. Many critics have berated it as expensive and unnecessary when uranium fuel prices are falling sharply because of over-supply. The accident prompted an outcry from the anti-nuclear lobby and local residents.

The state-owned Power Reactor and Nuclear Fuel Development Corporation, which operates Monju, has started to remove the sodium left in the cooling pipes. The reactor started operating in August and was running at 40 per cent capacity when the accident occurred. Emiko Terazono, Tokyo

## Roh aide questioned over jets

South Korean prosecutors are today to question an aide to former President Roh Tae-woo over whether bribery was involved in a 1991 contract for 120 F-16 fighters from General Dynamics of the US. Mr Kim Chong-wul, former national security adviser to Mr Roh, is seen as a pivotal figure in the decision to award the \$5.2bn (\$3.4bn) contract to General Dynamics, which subsequently merged with Lockheed Martin. There have been widespread allegations in Korea that kickbacks to Roh administration officials led to the choice of F-16 over the McDonnell Douglas F/A-18 combat aircraft, which was favoured by the Korean air force. Lockheed Martin has denied allegations of bribery. John Burton, Seoul

## China hopeful on inflation target

China expects to attain its inflation target for the year with November retail price figures showing a slowdown to 15.4 per cent compared with the same period last year. "China has basically reached the macroeconomic control target, which was set at the beginning of the year, of keeping the price rise at around 15 per cent for the whole year," the State Statistical Bureau said. Tony Walker, Beijing

## Taiwan bank hit by withdrawals

Overseas Chinese Bank of Taiwan, one of the country's medium-sized banks, has suffered heavy withdrawals of deposits following news that it is under investigation by prosecutors for allegedly extending large loans without sufficient collateral to a construction company. Mr Tsai Jui-lung, the bank's president, said late last week that the loans to Ben Chieh Chang Construction, a company based in the central city of Taichung, totalled T\$2.7bn (\$95m) and had been secured with sufficient collateral. Peter Hornsman, Taipei

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## NEWS: INTERNATIONAL

## Structural adjustment at the World Bank

Christopher Parkes looks at the management changes announced by the institution's new president

Mr James Wolfensohn lobbied hard to win the job of World Bank president. And he has worked hard educating himself in the six months since he took charge, trekking in and out of more than 25 countries. Now, as he explained in a memo to his more than 6,000 staff circulated last week, it is their turn - that of management in particular - to take some of the heat.

Starting next year about 50 of what he called "our best people" are to be packed off back to college to learn how to manage. Others will be seconded into industry and private sector banks. They will return, the memo continued, equipped to liberate the energies and skills locked up elsewhere in the institution.

That is when the executive directors, representing the bank's restive shareholders, hope to see the pay-back start trickling in from Mr Wolfensohn's first significant management initiative.

His scheme has raised eye-

brows in several world capitals, especially among governments striving to reduce their own administrative costs.

He has addressed what he sees as his main tasks - breaking the "armlock of bureaucracy", creating "a results culture" and honing efficiency - in an unusual style. He has shunned the slash-and-burn approach popular elsewhere and resisted any temptation to replace old hands with new blood or former favourites from his previous existence in Wall Street.

Instead, he increased the number of managing directors reporting directly to him from three to five by promoting a brace from his bag of 18 vice-presidents. Ms Jessica Elshor, treasurer, moves up to take overall charge of mobilising finances and resources. Mr Carlo Koch-Weser, vice president for the Middle East and Africa, will move up to share overall control of operations with Mr Gautam Raju, one of the present MDs.

"It has been noted that there



Wolfensohn: tough memo

is not a single new face," said one critic. "Does it make sense? Will it make things more efficient? To have operations split two ways?"

According to bank insiders, the decision to involve managing directors directly in day-to-day management, giving them specific areas of responsibility, was the first decision Mr Wolfensohn took. It was also

one of the most popular within the bank, because it marked a first step towards implementation of his main aim - to build incentives and accountability into the bank's culture.

This is the job handed down to Mr Sven Sandstrom, one of the existing MDs, who is being asked in effect to root out the civil service mentality pervading the bank.

It is understood he has been given two years to succeed... plus all the support he may need from the president.

Last week's staff note left no room for misinterpretation. Personnel and training were the bank's most important problem areas, Mr Wolfensohn wrote.

"I would like people who contribute to our success to be encouraged and rewarded, and I would like those who do not to be assisted to improve their performance or encouraged to do something else," he added.

Bank employees, unused to such ripe language, appeared to be reserving judgment. The bank's internal culture

has been picked on as a prime cause of its problems. Studies such as the Wapenhans report noted that staff tended to get promoted more on the basis of how many loan projects they pushed through than on the effectiveness of those projects at helping the cause of development.

Previous World Bank heads have restructured the organisation only to find within a year or two that clans had reformed under their old leaders, albeit within new organisational boxes. One executive director claimed the full board was "unambiguously very supportive" of the changes and the clear mandates given to the top managers, others were concerned at the concentration on top jobs - including the creation of a new senior vice president's post for chief economist Michael Bruno.

"People could say that is fine as far as the chiefs are concerned, but they might also ask what is going to happen with the Indians," one official said. "Reporting channels are

still too long. A task manager still has to go through five layers to reach the top. There is a very strong feeling that we need more de-layering."

The tough tone of Mr Wolfensohn's memorandum suggests he is far from oblivious to the scepticism, and will have little patience with slackers at any level. In case anyone missed the message first time round, he closed with the injunction: "I have made it clear that I expect the management group to work with me at top pressure."

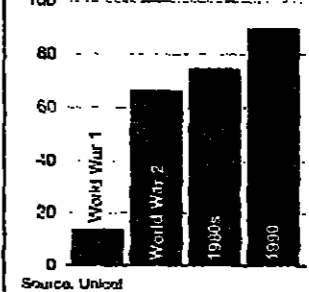
Among those likely to have his work cut out is Mr Mark Malloch Brown, external affairs supreme, and the man responsible for maintaining relationships with and deflecting criticism from shareholder governments. He has been elevated from director to vice-president in recognition of the importance Mr Wolfensohn places on his role.

As one observer remarked: "I just hope that does not mean he gets to have a new director under him."

## INTERNATIONAL NEWS DIGEST

## Unicef sets out anti-war agenda

**Civilian deaths**  
As a % of all deaths in 20th century wars



Source: UNISD

The United Nations Children's Fund yesterday set out an anti-war agenda to reverse the increasing toll on children taken by armed conflicts, 50 years after the agency's creation to help child victims of the second world war. In its annual report on The State of the World's Children, Unicef says civilians account for almost 90 per cent of all deaths in today's conflicts, compared with 70 per cent in the second world war and 14 per cent in the first world war. During the past decade 2m children have been killed, separated from their parents and 10m traumatised. "Thousands of children under the age of 16 have fought in wars in 25 countries," the UN agency adds.

Unicef's 10-point anti-war agenda includes a ban on anti-personnel landmines, the systematic reporting of war crimes against women and children, raising the conscription for children from 15 to 18 years, and "carefully monitoring" the impact of economic sanctions on children, a reference to Unicef's concern about Iraq. *Frances Williams, Geneva*  
\*Oxford University Press, \$10.95 (\$5.95)

## Britain to expel Libyan diplomat for spying

By Rousa Khalaf

Britain yesterday ordered the expulsion of a senior Libyan diplomat in London, accusing him of spying and intimidating dissidents.

The Foreign Office asked Mr Khalifa Ahmed Bazelya, head of the Libyan interest section at the Saudi Arabian embassy, to leave Britain by Christmas day after declaring him persona non grata for having engaged in "activities incompatible with his diplomatic status". Privately, officials confirmed this can mean spying and intimidation.

Britain broke off diplomatic relations with Libya in 1984 after the killing of police-woman Yvonne Fletcher outside the Libyan embassy in London, from which the shots were believed to have been fired. The Italian embassy in Tripoli has looked after

British interests since then.

Foreign Office officials insisted yesterday the expulsion was unconnected with the death last month of Mr Ali Mohamed Abouzeid, an opponent of Col Muammar Gaddafi, the Libyan leader. Mr Abouzeid was found stabbed to death in his London grocery store.

Observers, however, were quick to make the connection since dissidents suspect the murder was at the instigation of the Libyan authorities. Although police officials say no one has been arrested for the murder and they have no evidence pointing to any group or government involvement, a police statement last week said the case had been referred to the anti-terrorist branch.

Libyan experts said yesterday Mr Bazelya headed Jana, the Libyan official news agency in London and was in charge of monitoring the acts

of Libyan dissidents. He would thus be held responsible for any action taken against dissidents by the Libyan authorities. They said UK authorities had become worried about reported threats on the exiled Libyan community and may have wanted to send Tripoli a warning.

Internal unrest blamed on an Islamist opposition has raised tensions in Libya this year, making the regime even more radical.

"The regime has become more bellicose towards its own population and the outside world," said one expert. This and frustration over continued United Nations sanctions, imposed in 1992 and widened a year later after Libya refused to hand over two suspects of the 1988 bombing of a US airliner over Lockerbie in Scotland, have led to a campaign of expulsion of foreign workers.

## South African unions to fight state sell-off plans

By Roger Matthews in Johannesburg

South African trade unions yesterday spelled out their total opposition to the government's privatisation plans and forced ministers into establishing a new bilateral committee to review the state sector's future.

Mr Sam Shilowa, general secretary of the Congress of South African Trade Unions (Cosatu), said after meeting three ministers that no society in the world had benefited from privatisation. "If the government wants to sell off the family silver, we say no, you cannot," he declared.

Cosatu had reacted with "shock and disbelief" last week when the cabinet said it favoured seeking minority partners for Telkom, the telecoms company and South African Airways, and was pre-

pared to dispose of three other companies as part of a programme to reorganise state assets. The appointment of Mr Thabo Mbeki, deputy president, to head a cabinet committee on reorganising state enterprises, underlined the government's eagerness to press ahead.

Mrs Stella Sigcau, Mr Mac Maharaj, and Mr Pallo Jordan, ministers respectively for state enterprises, transport, and posts and telecomm, agreed at the meeting at Cosatu headquarters that no decisions would be taken until the new bilateral committee, with six members from each side, had negotiated a national framework accord.

They also agreed that reorganisation of state assets had to be undertaken in the context of a reconstruction and development programme aimed to bring basic services

to the most deprived parts of the community.

Mr Shilowa said the unions did not object to restructuring so long as its aim was to improve efficiency, stamp out corruption, and provide jobs. "We accept the need for the restructuring of state assets, but not that it should be a euphemism for privatisation."

Creating the bilateral committee adds another layer to an already extensive consultation process. Six sectoral task teams are preparing recommendations and outside advisers will soon be appointed.

The issue is being debated in the National Economic Development and Labour Council (Nedlac) on which government, business and unions are all represented. Mr Shilowa said there was no need for business to take part. "It is not involved. This is between the government and us."

## Bank backing for capital reform

Central bank governors from the Group of Ten leading industrialised nations yesterday backed proposals from the Basle committee of banking regulators for new capital requirements to cushion banks from market risks.

Mr Hans Tietmeyer, president of the German Bundesbank and chairman of the G-10 governors, said the proposals were important because, for the first time, they allowed banks to use their own in-house models for measuring market risk, rather than being forced into a single regulatory framework.

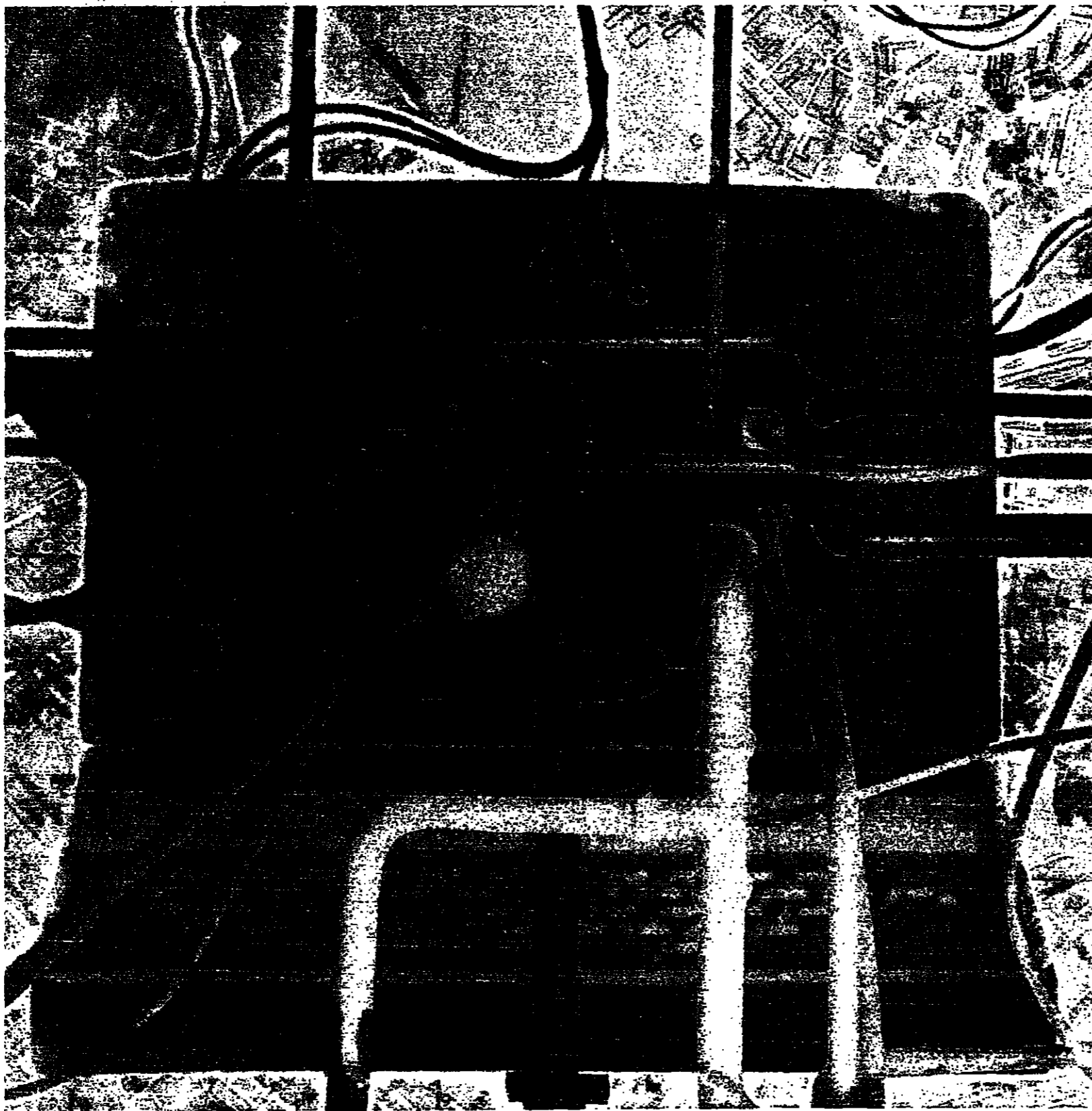
While banks and financial industry associations have welcomed the Basle committee's acceptance of in-house models, they complained that its draft required them to set aside more capital than necessary. As a safety factor, banks would have to maintain capital at three times their average value at risk, or the previous day's exposure if that was higher.

*George Graham, Banking Correspondent*

## Algerian newspapers start strike

Algerian newspapers begin a three day strike today to protest against government suspension of a leading daily and the arrest of top staff members. In special editions yesterday, editors of independent newspapers condemned the two-week suspension of French language daily *Liberte* and the arrest of its editor, Mr Hacene Ouandji and its director-general, Mr Outouert Abrouss on Sunday. After appearing in court yesterday, Mr Ouandji was released while Mr Abrouss was held in custody.

Editors in Algiers yesterday said the government took issue with factual information in a *Liberte* article last week on former general Mr Mohamed Betchine, a senior aide to President Liamine Zeroual. *Rousa Khalaf, London*



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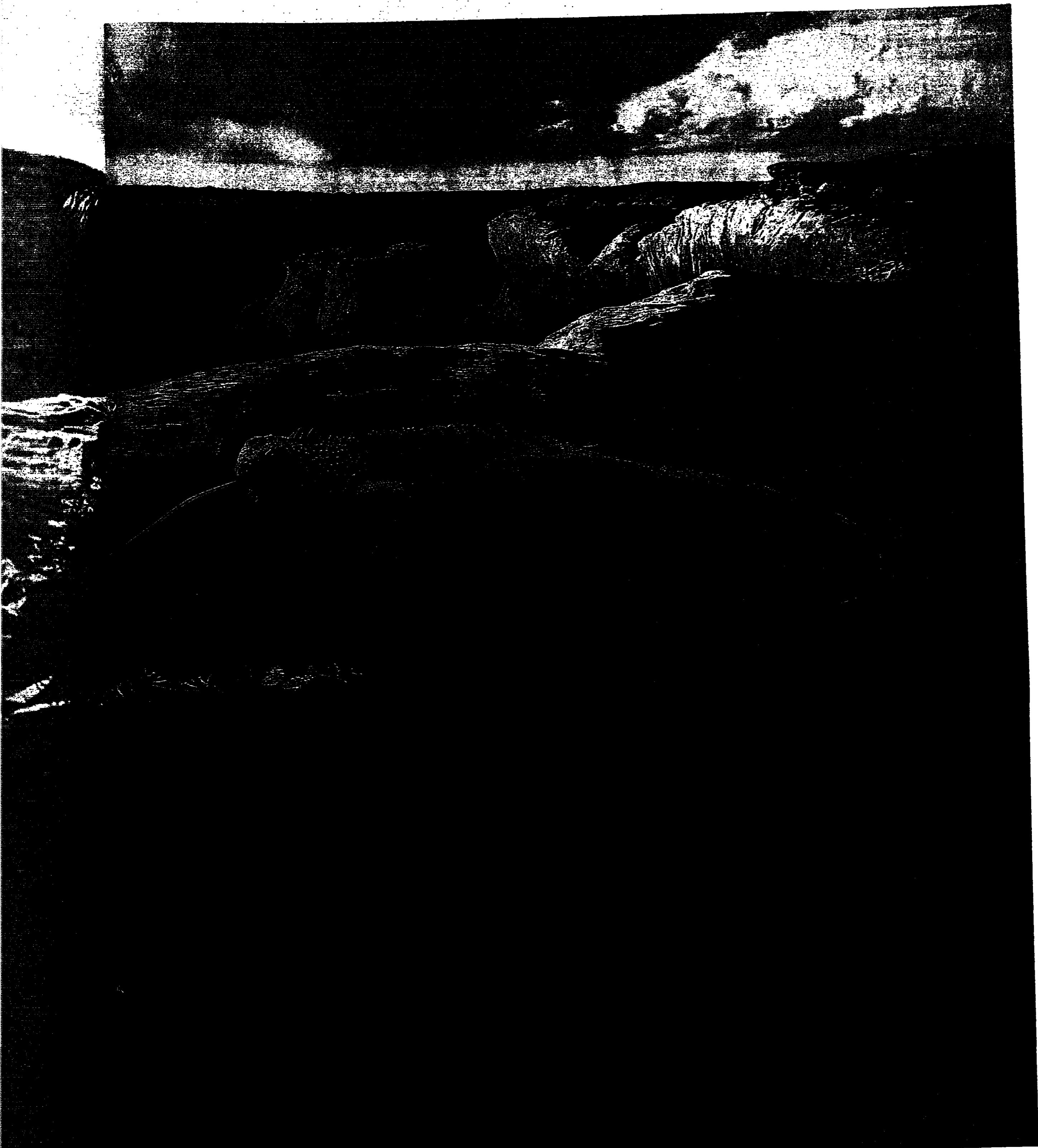
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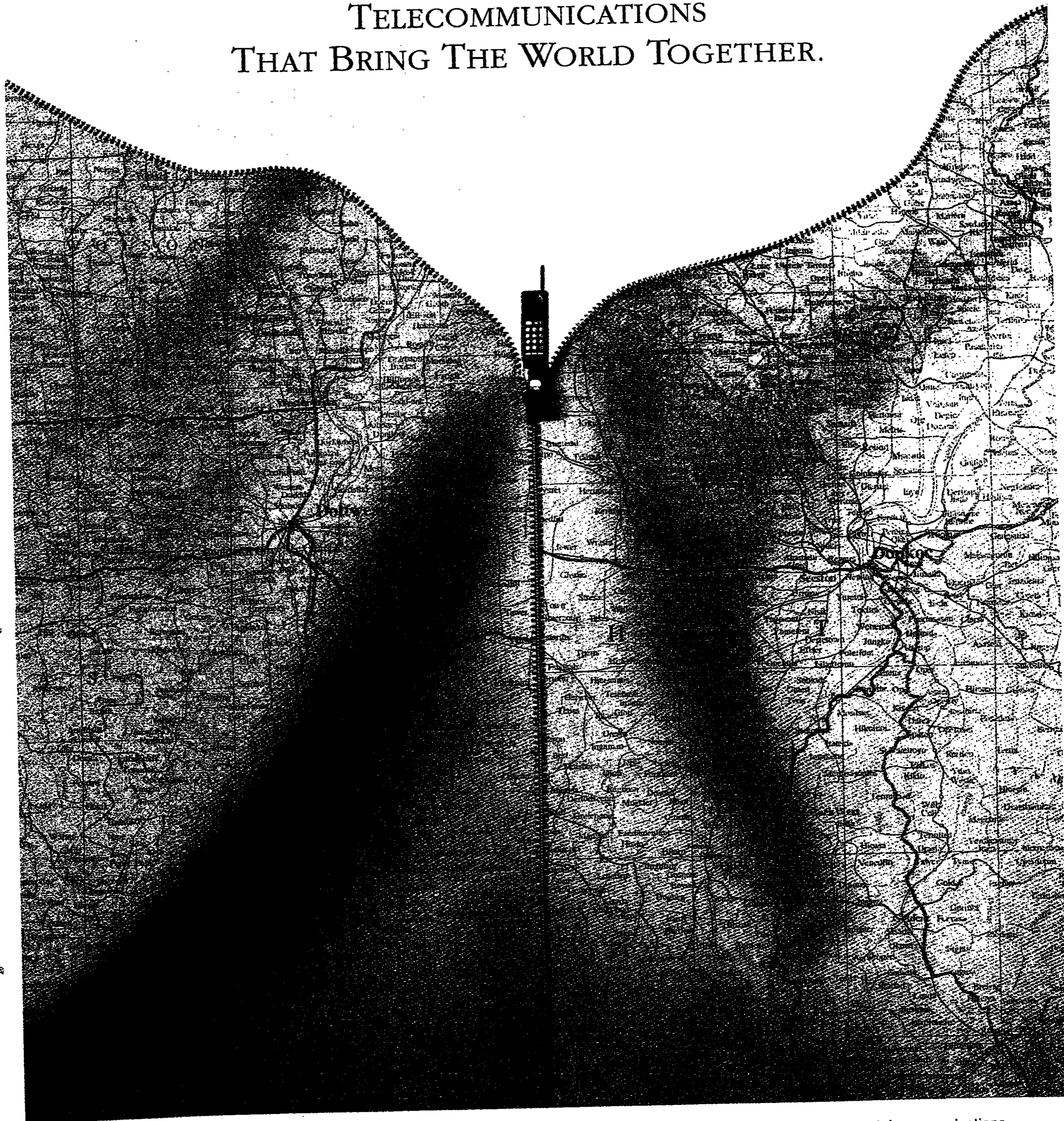
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## AUSTRIA

## Premier league place at stake

EU membership has put new strains on a society already struggling to cope with the liberalising forces of the past decade. Elections soon will, however, offer voters a clear choice, says Ian Rodger

Austria, one of the most successful and peaceful countries in Europe in the past decade, has suddenly got itself into a bit of a muddle. Its very generous social security programmes are driving public spending out of control, threatening both the stability of the schilling and the country's chances of qualifying for European monetary union membership in 1993.

At the same time, its peculiar political institutions and practices, which have worked so well in the past to solve tough problems, seem to have lost their effectiveness. It took the squabbling coalition government four months to agree a 1993 budget, and the coalition collapsed in October because of differences over the 1993 budget, forcing a second general election in 14 months.

Meanwhile, repeated letter bomb campaigns against immigrants and those who support them have again raised fears that not all Austrians are willing to resolve their differences by democratic means.

Few doubt that the country, which joined the European Union in January 1995, is approaching an historic turning point - "the issue is whether we are going to be in the European premier league or relegated to the eastern Danube regional division," says Mr Helmut Kramer, director of the Austrian Institute for Economic Studies (Wifo).

The seriousness of the situation appears to be widely recognised by ordinary Austrians. Although annoyed at

having to vote so soon after the last election, they are paying close attention to the current campaign. A record 1.5m viewers, nearly a fifth of the population, watched a television debate between two political party leaders three weeks ago.

And for once, the political parties are offering the voters clear alternatives.

The Social Democratic Party, which has dominated the government for a quarter of a century, is campaigning for the preservation of hard won social entitlements and promising that any reforms will be "fair".

The conservative People's Party, junior partner in the coalition, is calling for substantial cuts in some social programmes and for a freeze on public sector hiring.

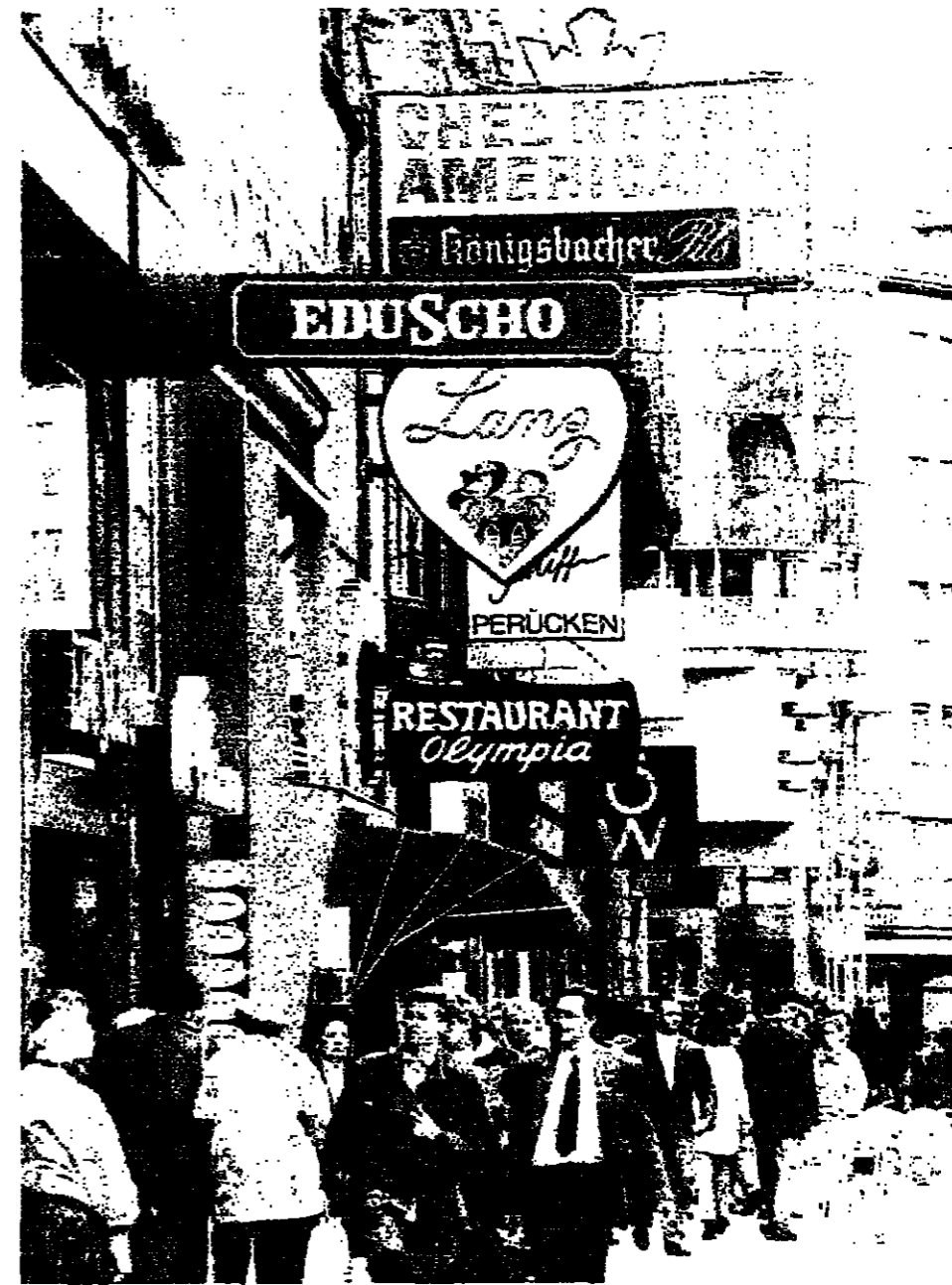
Close behind them both, the populist Mr Jörg Haider, leader of the right wing Freedom party, continues to appeal to large audiences with his attacks on immigration and on alleged abuses of power by both ruling parties. Whatever form the new government takes, the unpredictable Mr Haider is likely to have a significant influence.

The latest opinion polls suggest that no party will win a decisive victory in next Sunday's general elections, although the unprecedentedly high proportion of undecided or undeclared voters, over 40 per cent, adds a big element of uncertainty.

It is largely, but not entirely, coincidental that this convul-



Vienna: the view (left) towards the Pilsener Beer Pillar in Graben, while tourists, (right), through the shopping area - but Austria's income from tourism has fallen, sending the balance of payments into record deficits.



sion in Austrian public life is taking place only months after the country joined the EU.

EU membership has contributed substantially to the federal budget deficit in spite of rash promises by the coalition parties a year ago that it would not. And it has forced open some protected markets, bringing bankruptcies and insecurity to many small towns.

But the real malaise is in the two ruling political parties and the powerful chambers of commerce, agriculture and labour

which have run the country throughout the postwar period.

These bodies are having immense difficulties maintaining internal cohesion in the face of the liberalising forces that have gathered pace in the past decade, especially since the lifting of the iron curtain in 1989.

For example, some groups of businesses and workers have profited by the opportunities presented by the opening of neighbouring eastern European markets, while others feel

threatened by them. The chambers and trade unions can no longer resolve stark differences like these among their members and so are losing credibility.

One disturbing symptom of the malaise is the growing williness of highly placed officials to leak even the most sensitive documents to the media if they disagree with what is going on. In the past few months, there have been leaks of a leading bank's boardroom minutes, of a loan contract

between a bank and a leading newspaper and of a privatisation contract between the government and a bank.

Private sector companies have now become uneasy about passing on sensitive documents to the government or to the government controlled banks.

As Mr Ferdinand Lacina, the former finance minister points out, the weakened chambers and trade unions have also become increasingly unwilling to accept government calls to

co-operate in restraining spending. On the contrary, their tendency has been to demand ever more services, in a desperate attempt to demonstrate their continuing usefulness to their members.

Thus, in the early 1990s, when the economy was growing strongly, they backed a whole new series of generous social measures - a second year of paid maternity leave for women, three years' free

## IN THIS SURVEY

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Continued on next page

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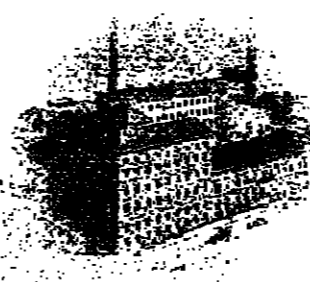
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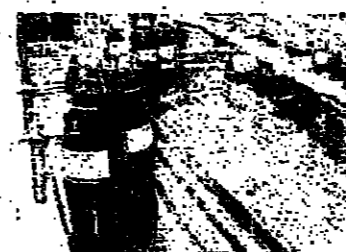
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## ■ Touring the capital

## A day to remember

For the business visitor with a free day in Vienna, Carina Lafite highlights some of the city's many attractions

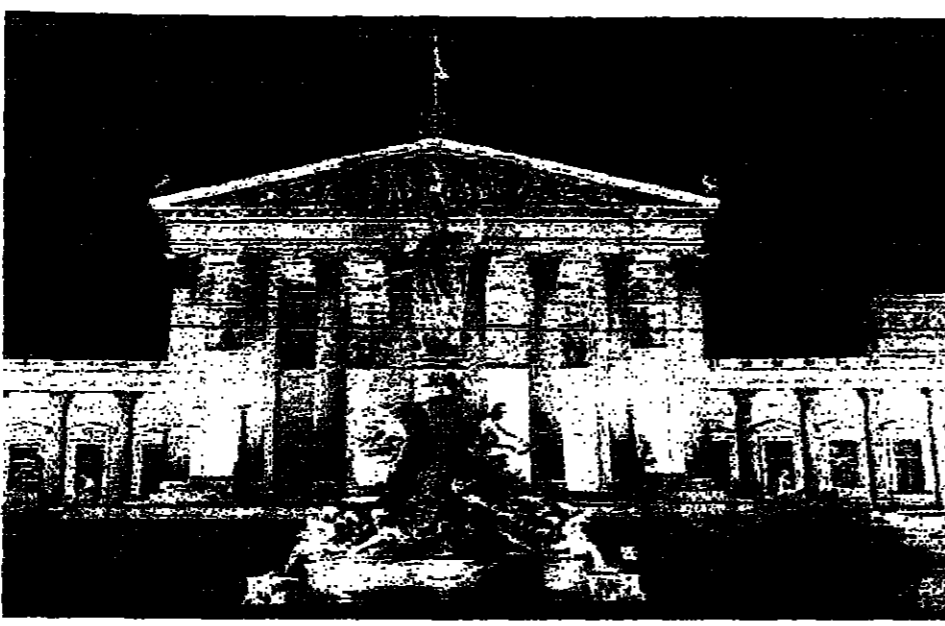
For a princely start, take breakfast in the Palais Schwarzenberg, a baroque palace overlooking quiet and elegant gardens in the centre of the city. The 250-year-old palace at the south end of Schwarzenberg Platz was converted by the current Fürst Schwarzenberg, just after the Second World War, into a hotel and restaurant.

The restaurant overlooks seemingly endless gardens leading up to the Lower Belvedere, and even at 7:30 in the morning it feels romantic – especially so after a fresh snowfall.

After breakfast, burn off your kaiserlicher Guggelhupf by crossing the gardens to the Upper Belvedere art gallery where all the Gustav Klimt and Egon Schiele have recently been brought out again, much to the pleasure of Art Deco addicts.

On the way out, ignore the taxi rank and risk a ride in the tram marked D (tickets can be obtained from a machine beside the driver). The D is a bit like the old number 9 bus in London, weaving its way from one end of the city to the other, passing most of the landmarks along the way. Many of the D trams are also rather ancient, complete with cubsicles for fare checkers.

Alight two stops later at the Opera, break away from the



Floodlit splendour: Austria's Parliament Building in Vienna, the capital city

mobs heading down the glittering Kärntnerstrasse and head for the Secession, a five-minute walk in the opposite direction. This important Jugendstil building was created in 1897 by the leading figures of the Secession Association of Austria's Creators of Fine Arts, including Josef Hoffmann, Klimt, Josef Maria Olbrich and Otto Wagner. It still follows the founders' motto – "To the time its art, to the art its freedom" – and features eclectic displays of Austrian and international modern artists in its frequently changing exhibitions.

Stay with the period and take the Number One underground line from Karlsplatz, a Wagner masterpiece, one stop to Stephansplatz. Walk up the

Graben, a broad pedestrian precinct flanked by Jugendstil houses that host some of Vienna's best cake temples and antique dealers and feature wonderfully weird ornamentations on their top floors.

If you feel a little peckish, you can safely trust a sign just off the Graben in the Dorotheergasse with the name 'Trazesewski, a tongue-twister even for Austrians. Don't be put off by the fifties decor or the queues – just indulge in the unique sandwiches (recipes are a well kept secret brought in from Poland nearly 100 years ago) and try a 'Priff', which translates as 200ml of beer, the maximum amount a Viennese housewife would allow herself before midday.

Or you might take refuge

nearby in Vienna's oldest coffee house, the still remarkably unspoiled Café Bräunerhof. Try a 'Melange', which is not unlike Café au Lait – and don't be irritated if it takes three to four 'Herr Ober, bitte', before someone advances your table.

Karl Kraus, Josef Roth, Peter Altenburg and other members of the Austrian turn of the century intellectual elite had the same trouble 70 years ago, but they still kept coming back to exchange their revolutionary ideas.

If you have an interest in jewellery, visit the Dorotheum, which puts on auctions as well as permanent sales exhibitions. A more personal service can be had at Köchert in Neuer Markt, where the same family that served the Habsburgs is

still in charge and the motto remains, 'Noblesse Oblige'.

If you are into old books, maps and prints, Gilhofer's Antiquariat in Bognergasse specialises in Austria, Vienna and natural science.

Then observe the young bankers and other professionals piling into the Schwarze Kameel across the street, a restaurant designed by Adolf Loos and featuring Viennese specialities and excellent wines by the glass.

Oenophiles should try to persuade the owner to let them continue the tasting in the Roman cellar, three levels below the ground floor. Lord Nelson, when visiting Vienna with Lady Hamilton, emerged with a bottle of French champagne, then a rarity in the anti-Napoleonic Austrian empire.

## Modern art

Cross the Freyung and once again board tram D at Schottentor. Modern art enthusiasts and pop art fans should alight at the fifth stop from Schottentor and visit the Palais Liechtenstein which houses the Museum for Modern Art. Including a large part of the Peter Ludwig collection. Nature lovers and joggers should continue and will arrive twenty minutes later at Wertheimstein Park.

This private estate was handed over to the city by Leopold Ritter von Wertheim, a director of the Viennese Bank Rothschild, at the turn of the century. The Biedermeier-style villa has been left untouched and turned into a museum, giving the visitor a rare feel for how arts, politics and finance blended together at that period.

Another architectural treasure is the strange Art Deco house built by Otto Wagner for

himself and his family in 1890 in the Vienna woods. It was restored after the second world war by the painter Ernst Fuchs who added his own contemporary style to the decoration. Best reached by taxi.

If you want to remain in the same period and hear some good music too, attend a concert in Wagner's masterpiece, The Steinhof Institution Church, situated in the extensive gardens of the Psychiatric Therapy Institution of the City of Vienna.

Music lovers will be pleased to know that a new electronic ticket service enables you to buy tickets for most events at banks and some shops rather than having to queue at the Rundestheaterkasse – another example of long overdue liberalisation in Austria.

Finish your day at a Würstelstand. Situated in little huts all over Vienna, these stands provide night owls with sausages, beer and insights into politics. If José Carreras is in town, you might spot him at his favourite Würstelstand by the Opera.

Addresses:  
Hotel Restaurant Schwarzenberg, 1030 Wien, Schwarzenbergplatz 5.  
Österreichische Galerie im Oberen Belvedere, 1037 Wien, Prinz Eugenstr. 27.  
Wiener Secession, 1010 Wien, Friedrichstr. 12.  
Trazesewski, 1010 Wien, Dorotheergasse 1.  
Café Bräunerhof, 1010 Wien, Steingasse 2.  
Dorotheum, 1010 Wien, Dorotheergasse 17.  
Köchert, 1010 Wien, Neuer Markt 15.  
Gilhofer, 1010 Wien, Bognergasse 2.  
Schwarze Kameel, 1010, Bognergasse 5.  
Museum moderner Kunst, Palais Liechtenstein, 1090 Wien, Freyung 7.  
Wertheimsteinpark, 1190, Döblinger Hauptstrasse 92.  
Villa Wagner, Privatmuseum Fuchs, 1140 Wien, Hüttelbergstr. 26.

## ■ Tourism: by Ian Rodger

## German stayaways hit earnings hard

Competition from exotic locations is proving hard to match

You have to give the Austrians full marks for effort. They are promoting their ski resorts this season – even in Switzerland.

That is a good measure of the desperation that has justifiably spread through the country's tourism industry in the past year or so. The country that used to enjoy the world's largest per capita earnings from tourism has suddenly seen its net income from this source shrink dramatically. Indeed, the net tourism surplus has slumped from Sch6.4bn in 1993 to Sch4.7bn last year and only Sch2.7bn in the first nine months of this year.

Not so long ago Austria's tourism industry seemed to have the best of all possible worlds – a landscape that

appealed to holiday makers in both winter and summer and an extraordinarily rich cultural heritage that drew thousands of visitors every year to its two principal cities, Vienna and Salzburg.

Tourism accounted for close to a tenth of gross domestic product and employed around 400,000 people, 11 per cent of the labour force. In 1991, it brought in Sch160bn in foreign earnings.

Today, as the country's income from tourism sags, sending the balance of payments into record deficits, many people wonder what has gone wrong, and, whatever it is, whether it can be fixed.

Most economists believe that tourism will not recover its past economic prominence. An official in the ministry of economic affairs pointed out that a long term decline had in fact been detectable for many years. The combination of the steady reduction in real travel

costs and the opening of relatively low cost resorts in exotic locations has created competition that Austria cannot match.

However, this decline was interrupted in the early 1980s by a number of extraordinary factors that resulted in many people failing to spot the underlying trend.

The lifting of the iron curtain in 1989 released a huge flow of curious visitors from former eastern European countries. The Gulf war in 1990 discouraged many Austrians and other Europeans from travelling abroad. In the summer of 1991, reports of polluted beaches on the Adriatic Sea drove many European holiday-makers to Austria's pristine alpine lakes instead. The war in former Yugoslavia has stopped many people from taking both winter and summer holidays in that region, to Austria's advantage.

All these extraordinary phenomena have faded in the past

year or so, and a reverse pressure has occurred because of the strength of the schilling – which is tightly tied to the D-Mark – against most currencies.

In the first seven months of 1995, the number of overnight stays in Austrian hotels fell by 4.2 per cent to 74.4m. This decline has been entirely attributable to foreign guests. Domestic guests were actually up 0.7 per cent.

The worst declines were registered by guests from Britain (-13.4 per cent) and Italy (-8.9 per cent), countries where the national currency has dropped significantly against the schilling.

A more disturbing statistic is the 7 per cent drop in overnight stays by Germans. Austria's northern neighbours are by far the most important group of visitors, accounting for nearly two thirds of the total, and currency is not an issue for them.

That can only mean that

Germans are finding better value elsewhere. Critics say that many Austrian resorts have not responded quickly enough to changes in public tastes and to their reduced competitive standing.

"We have to ask what people are looking for and what they want to do. We have the resources but we have to ask the right questions. Holiday makers do not come to look at the electric power stations," Mr Werner Schicklberger, an economist at Bank Austria, says.

The Austrian National Tourism Organisation and the provincial tourism agencies have recognised the changes and have been offering low cost packages to cater to special interest groups for several years.

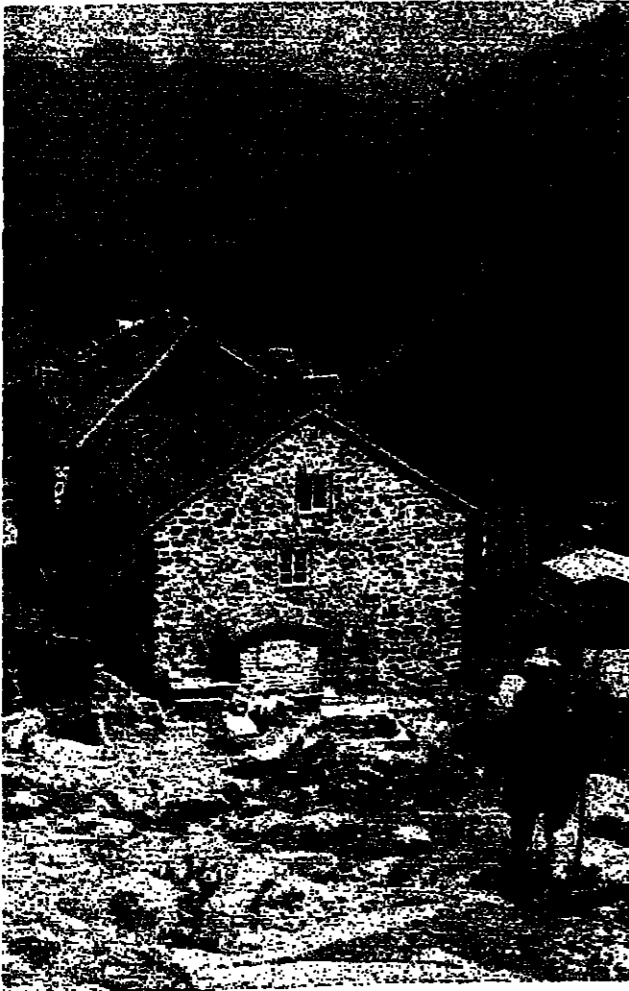
Mr Josef Christl, head of the economics department at Creditanstalt-Bankverein, and one of the first economists to be pessimistic about tourism, says it is simply a matter of price.

"There has been such a huge change in the relative prices of tourism for both foreigners and Austrians. We do not see a recovery".

Mr Werner Schicklberger, an economist at Bank Austria, is less gloomy. He points out that urban cultural tourism has held up extremely well, with Vienna and Salzburg both reporting slight gains in overnight stays so far this year.

He says Austria's particular vulnerability was that it appealed to middle earning Germans, individuals who would pack their family into the car and pull a mobile home to a trailer park by a lake in Tyrol. They are the ones who are most likely to be impressed by lower prices elsewhere.

The obvious answer would appear to be to move upmarket, but it would be difficult for Austria to compete with Switzerland, which has a strong hold on this area. So perhaps it is not so silly after all to go after the Swiss middle market.



The Numberberg Hut in the Stubai Alps



Exploring Vienna's old world charm: a drive in one of city's famous horse-drawn carriages

## 'Austria offers no warm beach'

Continued from page three

with the deterioration of the current account balance in the past three years, caused mainly by a sudden weakening in the tourism balance.

"We are not in a position where we have to be worried, but we have to find ways to improve all the activities in the balance of trade. We have skilled people, but we have to do more in research and development."

Tourism would not resume its former position as the balancing factor for a chronic visible trade deficit – "there is a general change in people's leisure behaviour. They want to see more exotic places and it has become cheaper to get to these places. And we do not have a warm beach in Austria in winter".

As the former head of the stock exchange, Mr Liebscher remains very committed to the development of Austria's anemic capital market. "What I try to do is explain to people that we were like Sleeping Beauty. We had 30 years of silence and then the market was discovered by international investors and it woke up. Expectations were very high and we have had to do a lot in a short time."

"What we need to do now is to attract large institutions, and we can only do that if we have more and larger companies on the market." Privatisations have been very successful this year, he points out. On the banking front, he is not critical of the seemingly never-ending attempt to complete the privatisation of Creditanstalt-Bankverein – "it is not good for a bank with a high

reputation to be always in the newspapers. I hope in 1996 we will come to a solution".

Mr Liebscher dissociates himself from the strident position of his predecessor who said last year it was unthinkable for Creditanstalt to be controlled by non-Austrian interests. "We are in a liberalised world so we should be relatively open. The idea of a core holding in Austrian hands has my sympathy, but it is not the only factor. In the end, the most important thing is what helps the business of the bank."

Mr Liebscher rejected recent reports of several billions of dollars being laundered through Austrian banks. "I do not understand such claims. We watch over foreign exchange movements and there are no indications of

such large transactions."

The 1994 banking act revisions had put in place a strong set of measures to prevent money laundering through Austrian banks, including an obligation on bankers to report any suspicious dealings or clients. Some reports on accounts worth Sch2.7bn had already been lodged, and accounts with some Sch600m had been blocked. "The system is working, the banks are very cautious."

He dismissed worries in some quarters about Austria's anonymous numbered bank accounts. Foreigners were not allowed to use them, and could not use Austrian representatives as fronts, because bankers were obliged to assure themselves about the identity of the beneficial owners of an account.

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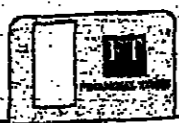
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## 6 AUSTRIA

■ Transport; by Ian Rodger

# The hills are alive with sound of motors

Increasing volumes of traffic have led to protests over congestion and pollution

Arriving at the top of a high alpine pass can be exhilarating, providing a sense of achievement as well as beautiful views in all directions.

Not so at Austria's Brenner pass, for centuries the main thoroughfare between Italy and Germany, and still the easiest way across the Alps.

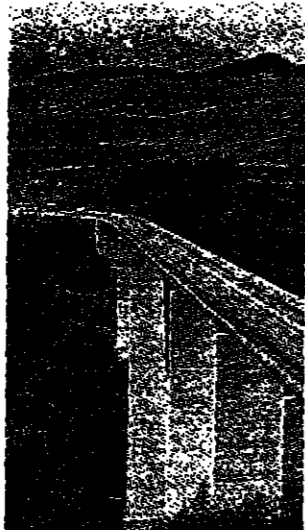
Approaching the Brenner from the Austrian side is a depressing experience. The long, gently rising Wipp valley has been badly scarred by a motorway built in the 1960s, when giant concrete bridges and cliffside spans were deliberately erected to be seen.

At the narrow pass itself, the motorway jostles for room with the old road and a double-track railway. The small space which remains is covered in tarmac to serve as a loading and unloading station for lorries piggybacking on the railway.

Piggybacking has to end at the pass because Italy is several years late in fulfilling its promise to enlarge the rail tunnels on its side of the border.

The issue of how best to manage freight transit over the Brenner appeared to be settled with an agreement between Austria and the European Union in May 1992, but it has arisen again this autumn.

In early October angry residents of Innsbruck and other towns on the Brenner route blocked the motorway for 24 hours and served notice they would do so again unless the volume of truck traffic was reduced.

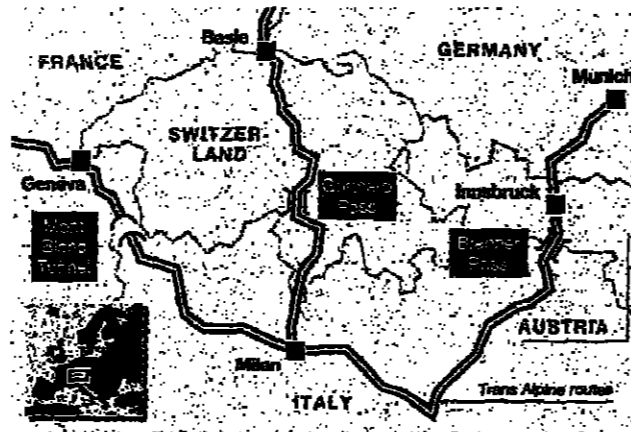


Route to the Brenner Pass: the Europa Bridge, near Innsbruck

"There is no longer a possibility of a compromise. We are building an alpine attack force," says Mr Fritz Gurgiser, head of Transitforum Austria, a local pressure group with broad support from the Austrian Alpine Club.

Mr Gurgiser, who runs a steel fabricating business near Innsbruck, says the measures aimed at reducing traffic and pollution which were introduced with the transit agreement have not worked.

The number of lorries in the first half of this year was nearly 725,000, 37 per cent higher than in the same period of 1991. This has been possible because the number issued of so-called "eco-points", the currency conceived to control movements, was far higher than it should have been. This, Mr Gurgiser alleges, was the result of lobbying by haulage companies.



(Ecopoints are distributed by Brussels to all interested EU countries without charge. Each lorry crossing the Brenner must spend a number of ecopoints depending on the amount of NOx (Nitrogen Oxide) per kilowatt-hour that it spews out. The idea is that hauliers can only expand their usage if they use lorries that pollute less. In theory, the overall number of ecopoints issued was also intended gradually to decline but this has not happened.)

Mr Gurgiser also complains that Austria's lorry road charges are having to be reduced to bring them into line with EU levels, thereby removing the incentive to use the piggybacking service or pure rail freight.

Austria's ministry of transport does not contest Mr Gurgiser's facts and figures but puts a different interpretation on them.

Yes, too many ecopoints were issued, it says, but an innocent estimating error was made because statistics on transit traffic were not complete. They excluded empty lorries and those dropping part of their load en route.

It agrees, too, that lorry road charges have had to be reduced, but says the Austrian government has tried to offset the impact of this by raising lorry road taxes and fuel taxes, which only affect Austrian lorries, and by doubling the Brenner motorway toll last July. These measures will bite only gradually, however, and in the meantime, piggybacking is down 20 per cent this year.

One main reason for the increase in traffic has been the recovery of the Italian and German economies this year. Lorry traffic over the Brenner stabilised between 1992 and

1994, leaving most countries with plenty of unused ecopoints.

Today, there is a shortage of ecopoints in some countries, and Austria, which has not used all of its points, has been called upon to return them to Brussels for distribution to those hardest hit.

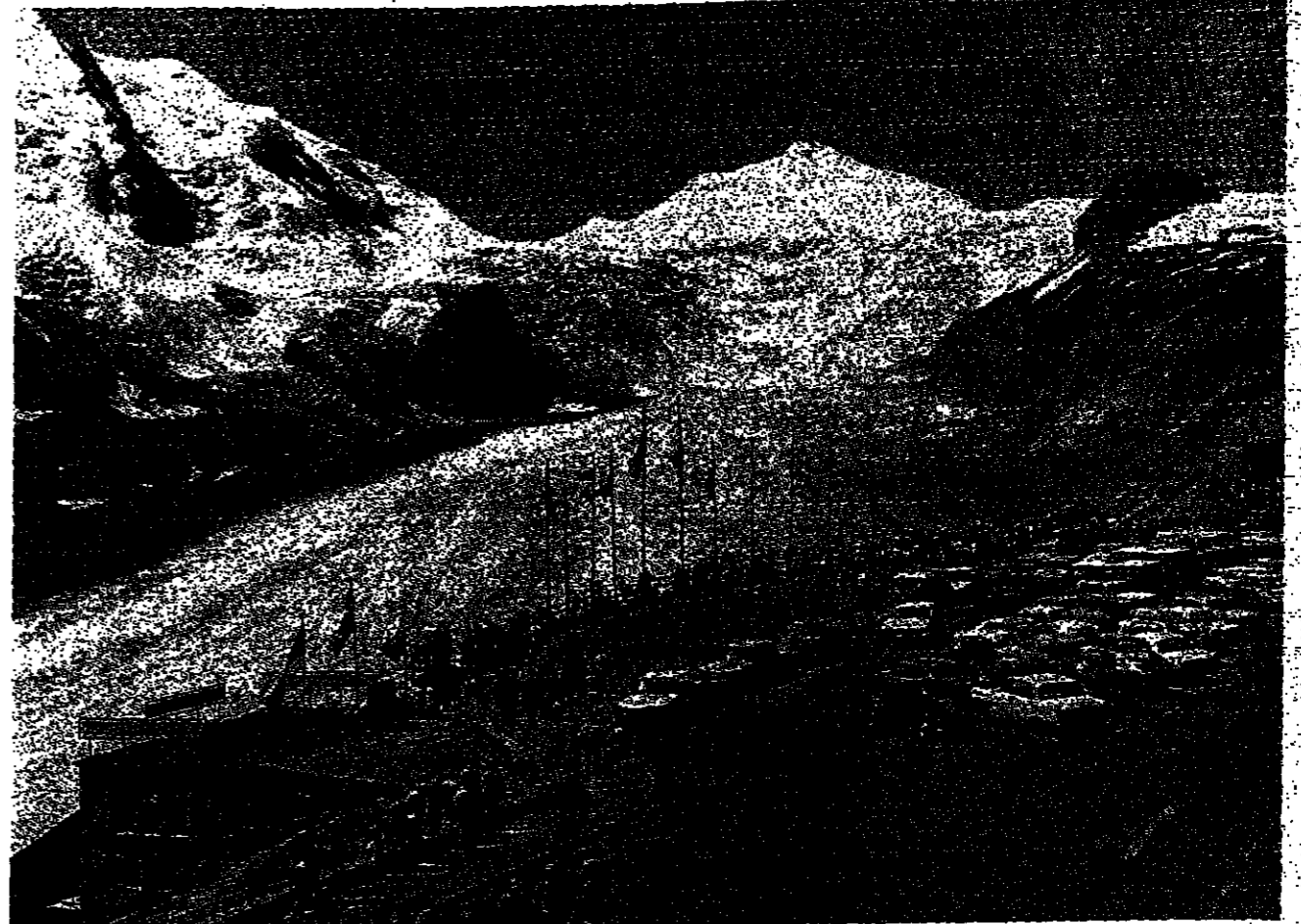
Meanwhile, the government, together with its EU partners, is working on longer term solutions. In mid 1997, a system of fees based on distance travelled will be introduced for lorries, thereby encouraging the movement to piggybacking. As an interim step, the government plans to introduce a flat rate vignette for all vehicles using motorways next summer.

Also, the governments of Italy, Germany and Austria and the European Commission agreed a year ago to launch a long term project to upgrade the rail line between Munich and Verona.

The plan is to build it step by step, with the heavily travelled section between Innsbruck and Wörgl, being the first. Brussels has recently contributed Sch800m toward the estimated Sch900m planning costs and the government has established a joint stock company with the hope of attracting private partners to the project.

The last step would be a new base tunnel under the Brenner, but it would be built only if necessary. Mr Gurgiser believes the existing rail line, whose capacity is not even a quarter used, will prove adequate for all foreseeable needs. The ministry says it does not know, but the decision can be postponed for at least five years.

It all sounds promising, but it remains to be seen if the Tiroleans will be patient.



Mountain splendour: the Pasterze Glacier, opposite the Grossglockner - there is good access by alpine roads

Picture by Peter Baker

■ Gaming companies; by Ian Rodger

## Yielding healthy returns

A casino operator and a slot machine maker have expanded outside their home market

Austrians are not noted for being keen gamblers. Yet the country is host to two large companies that are active throughout the world in the gaming business.

Casinos Austria is a state-controlled group with a quoted Australian subsidiary that claims to be the largest casino owner and operator outside the US. It runs gaming houses in locations as diverse as Christmas Island and Argentina and on many cruise ships too.

Novomatic, a privately-owned group based in a Vienna suburb, is still a modest participant in the casino business, but ranks itself as the world's sixth-largest maker of slot machines with annual sales of some Sch2.5bn (£160m).

Supporters of Harvard professor Michael Porter's theory that companies in a given sector thrive by clustering together should not get too excited.

There is little evidence that the two have had any influence on each other's development, except that Casinos Austria is a significant customer for Novomatic's slot machines.

Casinos Austria was set up in the 1930s to promote domestic tourism, but fell into mysterious hands after the second world war. When the finance ministry refused to renew its

licence in the late 1960s, the national tourist office bought it. Two of the country's leading insurance companies took minority stakes.

The insurance companies and a few other independent investors are still shareholders. Two years ago Münze Oesterreich, the Austrian Mint, took over the controlling stake, after the privatisation of the tourist office.

An initiative was made at the time to launch the group on the Austrian stock market. In the end it was decided to keep its ownership in the

**NOVOMATIC**

hands of the state and existing institutional shareholders. Mr Leo Wallner, the man who rebuilt the business and remains its chief executive, worries about undesirable types buying big shareholdings and throwing their weight around.

Novomatic was started by Mr Johann Graf in 1970 as a small operation selling and servicing slot machines and juke boxes in bars in the Vienna area for British group JPM. Graf, who still owns 97 per cent of the group outright, began manufacturing on his own account in the late 1970s just as the application of electronics to slot machines was becoming practical. Today, Novomatic controls more than 10,000 slot machines.

Both companies see a rosy future for their businesses.

"Governments everywhere need more money. We provide it in a convenient way," says Mr Graf, referring to the tax revenues governments make from gambling.

But their strategies for exploiting that future to the full are strikingly different.

Casinos Austria is continuing with its winning strategy of the past two decades: expanding aggressively abroad and while carefully tending its monopoly at home.

From a modest start in the Netherlands, the group now operates 55 casinos in 14 countries and another 21 on cruise ships. It first published consolidated accounts for 1994, revealing profits before tax of Sch99.9m on revenues of Sch82.2bn.

Last year, it spun off its activities outside Europe into an Australian company. It floated 45 per cent of the concern's shares on the Australian Stock Exchange in December at a price of A\$1 per share.

Mr Wallner explains that the group wanted a legal entity that would not be associated with the European Union. The parent retains a firm grip on the unit through its statutes. These stipulate that Casinos Austria must maintain majority ownership and that no other investor can hold more than five per cent of its shares.

Mr Wallner says that the group avoids operating in areas where security is uncertain. It has withdrawn from Moscow and has never tried to start operations in the Andean

countries of South America where drugs cartels are powerful. It withdrew from Croatia when the war began in former Yugoslavia.

In March Casinos Austria opened what it describes as Europe's largest casino in the resort town of Baden, south of Vienna. Built at a cost of Sch800m, it has 35 gaming tables and 317 slot machines.

Novomatic too is interested in expanding its business as an owner or operator of casinos, but slot machines remain its main focus. Mr Graf believes that today's gamblers prefer

**CASINOS AUSTRIA**

the privacy and anonymity of these machines to the social glitter of the gaming tables. And that is fine with casino operators because slot machines need fewer staff to service them and are thus more profitable.

Novomatic sells its machines under a number of brands but is increasingly settling on the Admiral name. Its strategy relies on continuing innovation in the games on the machines. Mr Graf says he spends 10 per cent of revenues on product development and brings out 20 new models a year.

Both groups are excited about the recent legalisation of gambling in neighbouring Switzerland and have been prominent among those seeking licences to operate full-scale casinos there.

Ian Rodger

## Mayr-Melnhof expands into eastern Europe

Continued from page four

est in the environment. Its board manufacturing is based on recycled waste paper.

"We are in a good position in the face of legislation on packaging. We can demonstrate that [in terms of production] we are in a closed loop," Mr Gröller says.

Mayr has adopted a strategy of acquiring competitors in these three highly-frgmented sectors. It has accelerated the pace since raising Sch2.9bn from the public offering.

The carton board division is already the European leader with plants at eight locations, capacity of 1.1m tonnes a year and a 30 per cent European market share.

The group claims its folding carton division is also the largest in Europe, since the acquisitions of Walmsley in the UK and Impact's Cartonnages in France last summer. But it still has only a 5.5 per cent share of the 3.5m tonnes-per-year European market - "we think we need a 10 per cent share in Europe and to be market leader in the big markets: Germany, Britain and France," Mr Gröller says. The waste paper division collects and sells 1.2m tonnes of its raw material a year and claims to be in the top five in Europe.

In spite of Mayr's apparent vertical integration, the group's divisions do not have to buy from each other on an exclusive basis. The carton board division buys only 40 per cent of the waste paper it uses from group companies, and the folding carton division buys only half of its board from internal sources. Purchases by the folding carton division account for less than a tenth of the sales of the carton board business.

The group is expanding into eastern Europe and working hard to produce recycled board of high enough quality to dis-

place virgin material in high-value product packaging, such as for cigarettes. It also is developing a barrier board to displace board-plastic laminates in waterproof applications.

Mr Alfred Fogarassy, deputy chief executive, defends the group from criticism over last

year's earnings forecast revision. "We had never seen an explosion in waste paper prices like that," he says. The price went from negative - the suppliers paid Mayr to pick it up - to DM300 (£135) per tonne in the space of a month. He also defends the initial stock price. "We have depreciated our

assets a lot and we have lots of reserves, as will become clear in the next five years. The book value of the group is about Sch7bn but the insurance value is more than Sch30bn."

Ian Rodger

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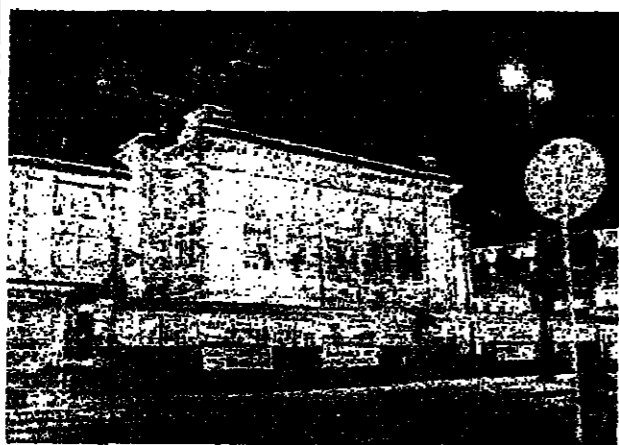
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## 8 AUSTRIA

## AUSTRIA: Key facts



The State Opera House, Vienna, left; and the baroque facade of Belvedere Palace

The Republic of Austria is a land-locked country with an area of 83,845 sq km (32,378 sq miles) of which 18.2 per cent is crop land, 24.1 per cent permanent pasture land, and 39 per cent forests and woodland; 18.7 per cent of land is put to other uses.

## Population

7.9m (1993); 93 per cent of residents are of Austrian nationality, of whom 94 per cent speak German, the official language; heavy dialect is in daily use. There are linguistic minorities of Slovenians (29,000), Croats (60,000), Hungarians (33,000) and Czechs (19,000).

## Principal towns

Vienna (capital, population 1.53m), Graz, Linz, Salzburg, Innsbruck, Klagenfurt, Villach, Wels, St Pölten, Dornbirn.

## Head of state

President Thomas Klestil, sworn in July, 1992 for six-year term. Chancellor: Franz Vranitzky, (Social Democratic Party, SPÖ). Vice-Chancellor: Wolfgang Schüssel, (People's Party, ÖVP).

## Culture and religion

Roman Catholic, 78 per cent, according to 1991 estimates, down from 83 per cent in 1981. The downward trend accelerated in the early 1990s; latest estimates put the figure at 75 per cent. Around five per cent of the population is Protestant. The nuclear family is the norm in Austria - it is common for both parents to work; young Austrians tend to live in their parental home until they marry. In part,

this reflects the length of time taken to complete university courses, although Austrians marry at a younger age than the European average.

## Currency

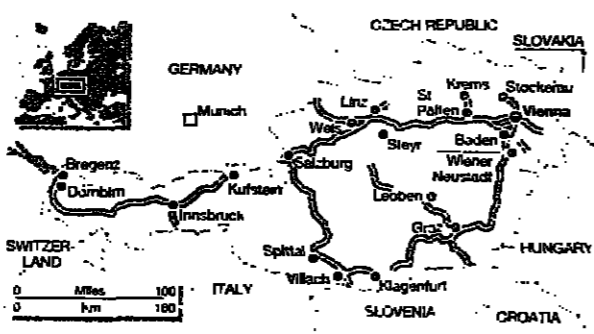
Austrian schilling; exchange rates, December 4, 1995: £stg = 13.5; \$ = 10.1; DM = 7.0; Yen (¥100) = 10.0.

## Business hours

Banks, 0800-1230 and 1330-1500, Monday-Wednesday and Friday; 0800-1230 and 1330-1730 on Thursdays in Vienna, with slight variations in other areas. Some businesses do not work on Friday afternoons. Offices: 0800-1230 and 1300-1730, Monday to Friday. Shops: 0800-1800, Monday to Friday; 0800 to 1300 on Saturday; 0800-1700 on the first Saturday of the month in main shopping areas.

## Climate

Ranges from cool temperate to mountain-type, according to location; winters are cold with considerable snowfall, but summers can be very warm; the wettest months are May to August.



## Time zone

Six hours later than US eastern standard time; one hour ahead of Greenwich Mean Time, GMT; GMT+2 from end of March to end of September.

## Business and social hints

Appointments must be made in advance and punctuality is important; the usual form of address is Herr or Frau, followed by family or surname; handshaking is universal in business and private meetings, both when arriving and leaving. Business is usually conducted in German, although many executives speak a second language, including English; for restaurant meetings, dress formally, as for business meetings. Tipping is widespread and usually expected. When visiting private homes, it is usual to take flowers or confectionery for the host or hostess. Traditional Austrian food includes Wiener schnitzel, goulash, knödel (dumplings) and sachertorte (cake); lunch is the main meal of the day.

Data source: FT Library Service

Salzburg Seminar: by Ian Rodger

## A centre for fast-trackers

Salzburg Seminar's world focus is on diplomatic, economic and social issues

What do Marcel Marceau, the French master of mime, Bob Hawke, the former Australian prime minister and Lord Dahrendorf, the prominent British economist, have in common? They, along with 16,000 others from 123 countries, have been fellows at the Salzburg Seminar, a private institution with mainly US private backing, aimed at helping young people on the fast track get to know their counterparts elsewhere.

The Seminar was set up in 1947 by a few US intellectuals, including the famous anthropologist Margaret Mead, to expose war-battered European leaders to American culture and scholarship.

The founders were offered the use of Schloss Leopoldsdorf, an 18th century castle in Salzburg that subsequently became famous as a stage set for the film *The Sound of Music*. The Seminar later bought the castle and its grounds and has stayed there ever since.

Over the years, its focus has gradually shifted away from American studies to international diplomatic, economic and social issues.

Next year it will offer sessions on sustainable agriculture, human rights, the power of theatre, conservative political movements in western industrial societies and the problem of meeting the health care needs of under-served communities.

"There is no point in us doing management training," says Olin Robison, a US academic who has presided over the Seminar for the past four years. "If you want your rising star to produce a better widget, send him elsewhere. But if you want him to get multinational experience, matching wits with fast-trackers from other countries, this is a bargain," he says.

Sessions once lasted six weeks, but Robison has cut them down to one week, recognising that today's rising stars are unlikely to be able or willing to take more than that off from their jobs.



Salzburg Seminar Fellows with Schloss Leopoldsdorf in the background - made famous in the film, 'The Sound of Music'



Multi-national forum: Fellows meet in a working group in the library of the elegant 18th century Schloss

There are normally about sixty fellows in a session, and their time is divided between lectures and small workshops. An intense evening social programme is aimed to break down barriers quickly.

Participation of both faculty and fellows is mainly by invitation arising from contacts with the alumni networks. The Seminar pays only travel and on site accommodation for faculty but provides full expenses for more than 90 per cent of the fellows. Fellows can only attend once.

Robison, former president of Middlebury College in Vermont, is especially proud of the quality of faculty he can attract without paying them. Among recent participants have been EC commissioner Sir Leon Brittan, US Secretary of State Warren Christopher and former German chancellor Helmut Schmidt.

For all the international aspirations of the Seminar, it is still largely American in both its feel and its agenda. From the moment one passes through the grand gates of the Schloss, it is as if you have left Austria and entered the United States.

German and other European languages are seldom heard there, and even the freshly scrubbed student hosts and hostesses turn out to have been flown in from US campuses.

Over half of the faculty are American, which means that a US view of the world and its problems inevitably prevails. Fellows coming from, say, India or South Africa for a session on how to make their non-governmental organisations more effective will learn above all the American way. And they will establish contacts with mainly American sources of funding. The W.K. Kellogg Foundation is the single largest private supporter of the Seminar.

Robison, who operates much of the year from the Seminar's US head office, obviously has mixed feelings about this situa-

tion - "we are an American institution, chartered in the US and with 90 per cent of our funding from the US," he says. And he jokes about American taxpayers' money (grants from the State Department) being used to restore and maintain an Austrian historic monu-

ment. Yet he also says, he would like the proportion of US fellows in the sessions reduced from about half to a quarter - and the broadening of the funding base is "a major goal".

Similarly, Salzburg Seminar is belatedly trying to strengthen its relationships with Salzburg and Austria. The Austrian government has been a regular, if modest, financial backer but it recently agreed to donate Sch25m to help reduce debts incurred six years ago to expand accommodation space.

The Seminar frequently invites distinguished Austrians to participate both as faculty and fellows. "I suspect every one in the Austrian Cabinet has been here at one time or another," Robison says.

Meanwhile, the Seminar has returned to its roots, establishing this year a separate programme for the study of American culture and language.

This time, the idea is to provide ideas and materials to academics from central and eastern European countries who are now free to teach American studies without the Marxist overlay. More than 300 have attended so far.

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## INTERNATIONAL COMPANIES AND FINANCE

## EUROPEAN NEWS DIGEST

## Moulinex halves losses at mid-term

Moulinex, the French household appliances group, yesterday reported that its losses had halved to FF121m (\$24.3m) for the six months to September 30. Turnover fell 3 per cent to FF3.3bn, compared with the first half last year, even after sales generated by new products. The group stressed that only 40 per cent of turnover was generated during the first six months of the year.

Operating losses rose by a third from FF62m to FF99m, which Moulinex said reflected the negative net impact of exchange rates, the effect of strikes in its Normandy factories last June, higher raw material costs, increased advertising spending, and the cost of launching new products.

The losses were reduced as a result of a sharp fall in interest expenses from FF119m to FF69m, reflecting a reduction in group debt. There were also exceptional gains of FF32m from capital gains on divestment of assets, compared with exceptional charges last time of FF77m generated by restructuring provisions.

The group said turnover trends for October and November were encouraging, raw material costs were stabilising, and new products accounted for nearly 30 per cent of sales in the current year. But it cautioned on the uncertainty of consumption in Europe and of exchange rates.

Andrew Jack, Paris

## Mobilfunk sales up 55%

Mannesmann Mobilfunk, Germany's leading private mobile phone operator, yesterday reported a 55 per cent rise in sales this year to DM2.7bn (\$1.38bn) and said it expected to have almost 2m clients next year.

The company is signing up about 60,000 new clients a month, an increase on monthly growth rates of about 50,000 earlier this year. Some 20 per cent of the company's clients were private users.

Mannesmann's D2 mobile phone network has about 1.4m clients, putting it level with DeTeMobil, Deutsche Telekom's mobile phone subsidiary which is its main competitor. E-Plus, a third German network launched last year, hopes to have picked up some 300,000 clients by the end of the year.

MMO said it had invested DM600m in its own telecoms network this year, bringing the total invested since 1989 to DM3bn. Mobile phone operators were given permission to build their own networks earlier this year, enabling them to become leading competitors to Deutsche Telekom, once all telecoms services are fully liberalised early in 1998.

The Düsseldorf-based company said it would increase its 3,000 strong workforce by about 20 per cent next year to service the growing demand for mobile telecoms in Germany.

Michael Lindemann, Bonn

## AVC Intressenter sells VOAC

AVC Intressenter is selling VOAC Hydraulics to Parker Hannifin, a US industrial group. AVC Intressenter is a holding company held 50 per cent by Volvo Aero, a unit of Sweden's automotive group Volvo and 50 per cent by Atlas Copco, the Swedish engineering company.

VOAC's 1995 sales are expected to be SKr1.2bn (\$180m). The price was not disclosed.

VOAC Hydraulics develops, manufactures and sells hydraulic components and systems for vehicles in construction, forestry and other industries. About 70 per cent of its sales are outside Sweden, mainly in Europe and North America.

It has three manufacturing facilities in Sweden, sales companies in 10 countries, and employs 980 people.

AP-DJ, Stockholm

## Arbed sees profits advance for 1995 year

Arbed, the Luxembourg steel maker, expected its 1995 net profit to be higher than the FF141m (\$13.9m) recorded in 1994 while the group's sales were seen rising 30 per cent from 1994's FF205.7bn, said Mr Joseph Kinsch, chairman, agencies report from Brussels.

In an interview with the company's in-house newspaper, Mr Kinsch confirmed forecasts, made in September, of lower sales volumes in the second half.

"Despite lower volumes, the second half of this year confirms the rise in our 1995 results from 1994," he said, adding that the group was also keeping to its budgetary forecasts.

Flat product output was growing strongly because of integration in the Stahlwerke Bremen group but the long products sector was proving "more hesitant", he added.

The negative trend in production volume of long products is partly due to a technical incident at a blast furnace at the start of the year, Mr Kinsch said.

He added that adapting the company's steel operations to the mini-mill type would be the principal task in 1996, along with improving the balance sheet structure and completing the integration of Stahlwerke in the Arbed group.

Mr Kinsch said the acquisition of a majority stake in German steel maker Stahlwerke Bremen had been reflected in better production and financial results in 1995.

Since the integration of Stahlwerke Bremen, formerly Kloeckner Stahl, into Arbed's operations, production of flat products has increased 36 per cent, the newsletter said.

Other sectors that have seen strong production rises include stainless steel, copper sheets and engineering.

Mr Kinsch noted that the only shadow at present was that hanging over its long products operation.

The company swung back to profit in 1994 for the first time since 1991 and in July this year boosted its stake in Stahlwerke to 67 per cent.

## Stora to build C\$650m plant in Canada

By Hugh Carnegie  
in Stockholm

Stora, the Swedish pulp and paper group, is spending C\$650m (US\$473m) on building a magazine paper plant in Canada in one of the biggest investments by a European company in the North American forestry sector.

The plant at Port Hawkesbury in Nova Scotia, to come on stream in 1998, will produce 350,000 tonnes a year of uncoated "SC" paper used for magazines and advertising materials, a significant addition

for a grade for which annual consumption in the US totals only about 2m tonnes.

"It is a huge investment," said Mr Lars-Ake Helgesson, Stora's chief executive. "But we believe there is a window of opportunity right now in the SC market in the US and Canada."

The move by Stora, Europe's third-largest pulp and paper group, is a rare foray into North America by European producers which have so far concentrated on the European market. However, it confirms an emerging inter-continental

trend in the industry.

Mr Helgesson said Stora was attracted by the recent strong growth in North America for uncoated magazine paper, which averaged 8 per cent a year between 1991 and 1994, in spite of a heavy downturn in the industry as a whole.

Although demand has been much smaller than for glossy, coated "LWC" magazine grades, SC is up to 20 per cent cheaper.

"We have seen strong market growth, we have seen high quality SC eating into the market for LWC paper and the

high quality SC we intend to produce has not really been produced in the US to date," Mr Helgesson said.

Worries that such big investments in new capacity may undermine prices have helped fuel fears of a new downturn in the industry, leading to a recent slump in forestry sector share prices, in spite of record profitability this year.

Yesterday's announcement, made shortly before the Stockholm stock exchange closed, prompted a slight fall in Stora A shares, which ended the day unchanged

from Friday at SKr79.50.

"If the new plant comes on stream during a downturn, it's sad," said Mr Helgesson. "But that will not change our fundamental outlook. We have to look at this in a long-term perspective."

The new plant, which will greatly expand Stora's existing pulp and newsprint-making facilities at Port Hawkesbury, is the second big investment in new capacity announced this year by the company. It is building a SKr2.1bn (\$460m) liquid packaging board plant in Sweden.

## The ups and downs of buying Belgacom

Finding a partner for the telecoms operator has not been plain sailing, says Emma Tucker

The final bids for a 49.9 per cent stake in Belgacom, the Belgian state telecoms operator, have landed on the desk of the flamboyant Elio Di Rupo, Belgium's communications minister, in what was described by one merchant banker as "a huge and unique transaction".

Huge, because Belgacom had been valued at BF160bn (\$5.37bn) by Petercam, the Belgian consultancy, in 1991 - even if some analysts believe this estimate might now be too high.

Unique, because Belgium is the first west European government likely to complete the tricky process of choosing a strategic partner for its state telecoms monopoly.

Mr Di Rupo, government official, Morgan Stanley and Banque Degroof - the merchant banks overseeing Belgium's prize privatisation - now have two weeks to select a winner if the government is to deliver its verdict before Christmas.

Two consortia remain short-listed. Swiss Telekom with KPN, the partially privatised Dutch post and telecoms operator, and Ameritech, a US operator which recently announced it had joined forces with Singapore Telecom and Tele Danmark to strengthen its bid.

The carrot for the final bidders is a company at the centre of the European Union's institutions. Brussels - the Belgian and European capital - is a prime

location for the European headquarters of international companies and a springboard for possible expansion into the contiguous markets of western Germany and northern France.

"Belgium's position in relation to France and Germany is very important," said an industry source close to the KPN bid. "It would give the consortium a strategic toe-hold."

On the down side, they have to contend with restrictive Belgian labour market laws - which make redundancies near impossible - plus an unfunded pension liability of roughly BF110bn which will stay with the company.

In seeking a strategic partner for Belgacom, the Belgian government has acted as a pioneer. The only previous attempt by an EU government - Greece - to sell part of its state operator to private investors ended in disaster.

"It was an example of how not to handle a privatisation. There was a lot of political interference, there was a change of government, it was really pathetic," says a merchant banker.

Greece's experience has not deterred the cash-strapped Belgian government which desperately needs to lower its budget deficit to qualify for monetary union in 1999.

But the deal will not only strengthen Belgian government coffers. The partner is also expected to haul Belgacom into shape ahead of full EU telecoms liberalisation in 1998. Belgacom, assisted by Arthur

## Belgacom turnover breakdown

All figures BF billion

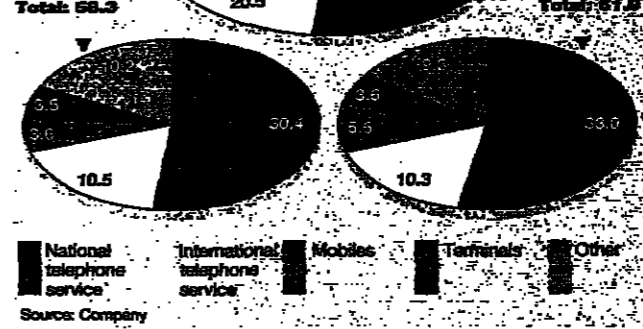
1994 (12 months)

Total: 177.0

1994 (6 months)

Total: 88.3

Source: Company



D Little, is examining the technological and strategic nature of the bids, while a government commission is dealing with the financial side.

Nevertheless the Belgacom privatisation has had its ups and downs - the most notable down being when a British Telecom consortium withdrew from a shortlist of three.

B T's stated reason for pulling out was concern that the special status granted to Belgacom employees - similar to that of civil servants - would lead to ugly scenes between management and unions when it came to cutting the workforce. Strong

trades unions represent more than 80 per cent of Belgacom's 26,500 employees.

However, a more likely reason was differences between BT and Bell Atlantic over the best way of providing Belgium's many multinational companies with access to international networks.

Their withdrawal left just the two remaining bids on the table. Apart from Belgium's good geographic situation the deal offers other temptations.

For example, the scope for improved efficiency at Belgacom which, thanks to new local management, is only slowly shaking off its reputation for abysmal customer service.

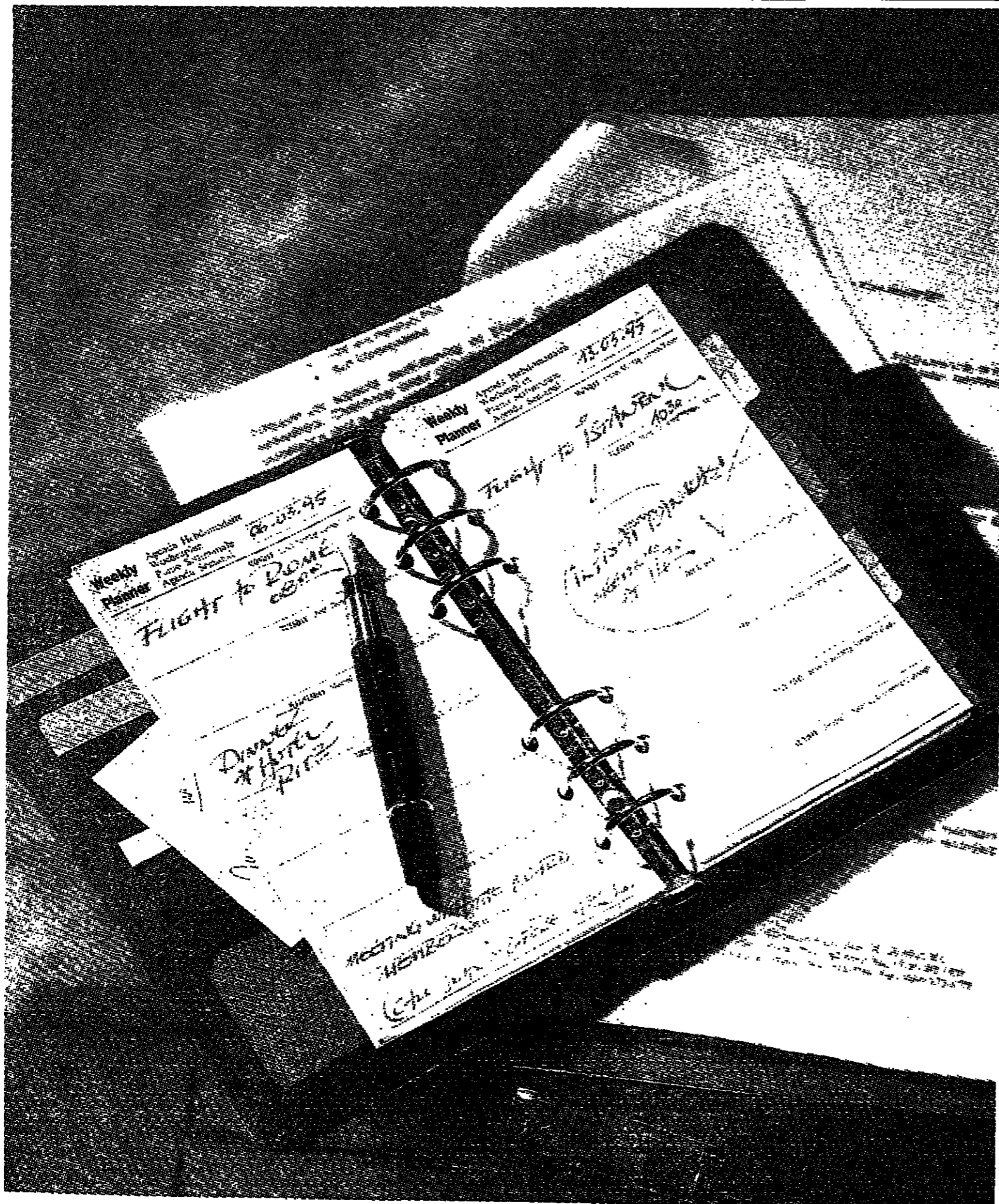
"There is a big margin," says Mr Erik Theyskens, telecoms analyst at Banque Bruxelles Lambert. He cites Belgacom's fleet of 7,500 vehicles whose maintenance costs run at BF4 per km, against BF1 per km for a big Belgian leasing company. Another target would be the company's 1,200 buildings.

On the labour market front the centre-left government, coping with unemployment levels of over 12 per cent, says it believes any problems can be resolved through careful negotiations by all parties. However, some doubts remain.

"Some people just didn't have the stomach to deal with the political issues," says a source close to KPN, who has some sympathy for the BT decision. "The situation is very different in Belgium from Thatcher's Britain when BT had to make its large-scale redundancies."

As for the bids themselves, relative merits are strong on both sides. KPN-Swiss Telekom would bring obvious geographical synergies to Belgacom, but also has an international dimension through its links with Unicom, the pan-European consortium - spanning Spain, the Netherlands, Sweden and Switzerland.

The Ameritech consortium brings international experience - through participations in New Zealand, Hungary and Poland - and it has all the experience of liberalisation on the other side of the Atlantic.



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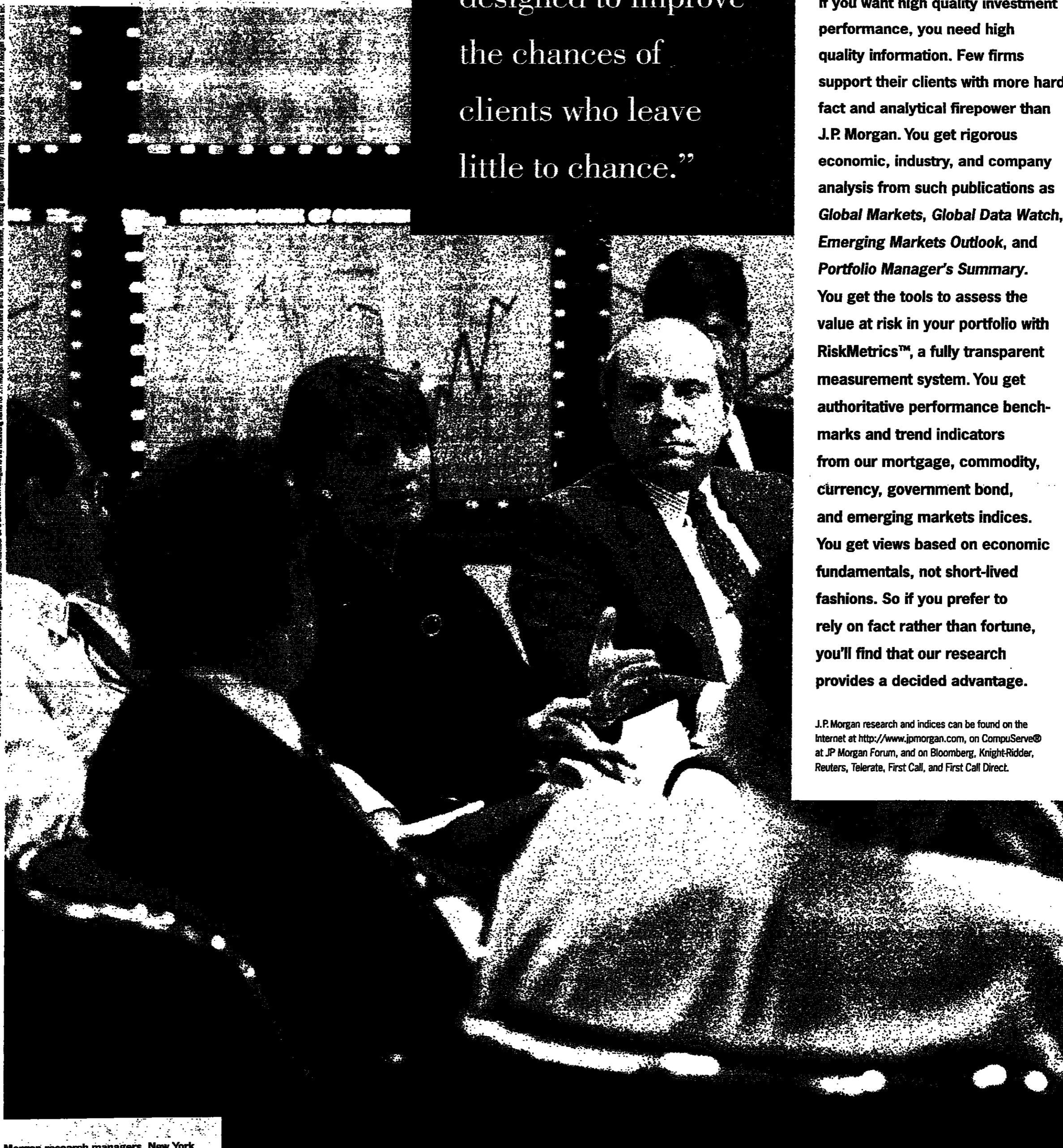
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## INTERNATIONAL COMPANIES AND FINANCE

## AMERICAS NEWS DIGEST

## Banco de Santiago faces bid for shares

Trading in the shares of the Banco de Santiago, Chile's second-biggest private bank, was suspended on the Santiago stock market yesterday for one day, by the Chilean securities board, after information that a bid would be announced today for a large package of shares.

The bid was widely expected to be from either the Luksic group, or their partners, Banco Centrolasiano (BCH), of Spain, or from the two together, possibly via their newly-formed joint venture, the O'Higgins Centro Hispano holding company. The Luksic group is the biggest single shareholder in Banco de Santiago, with 24.45 per cent, and is controlling shareholder with BCH in Banco O'Higgins, Chile's third-biggest bank.

The two have made public their interest in merging the two banks, provided they can negotiate an agreement with the minority shareholders. Ownership of the Banco de Santiago is highly dispersed - the second-largest shareholder owns only 2 per cent. Ms Ida Longeri, an analyst with Larraín Vial, a leading Chilean brokerage, said the Luksic-BCH group had a strong interest in expanding its stake and cutting the number of shareholders it had to deal with. *Imogen Mark, Santiago*

## RJR and raiders in war of words

Mr Bennett LeBow and Mr Carl Icahn, the US corporate raiders trying to force a break-up of RJR Nabisco, the food and tobacco group, yesterday stepped up their proxy battle by claiming the company had "an arid and bleak future" under its newly-appointed chief executive, Mr Steven Goldstone. RJR Nabisco described the suggestion as "simply bizarre".

In a letter to RJR Nabisco's shareholders, Mr Bennett LeBow's Brooke Group said Mr Goldstone had used the occasion of his appointment last week to express "his strident opposition to a spin-off" of the tobacco business, telling stockholders it was not possible before 1998. Brooke Group said that if Mr Goldstone's priority was to lift the stock price, he should be in favour of an immediate spin-off and an increase in the company's dividend.

RJR Nabisco said Mr Goldstone had never expressed strident opposition to a spin-off of Nabisco: in fact he had reiterated the board's support for such a transaction when it was "in the best interests of shareholders. Simply put, Mr LeBow wants control of the company in order to unload his poorly-performing tobacco company on RJR Nabisco's shareholders on terms that will only benefit him and his associate Carl Icahn," RJR Nabisco said. *See International People Richard Tomkins, New York*

## Total's US unit cuts capacity

Total Petroleum North America is to reduce its refinery capacity and is to sell its Ark City, Kansas refinery or to transform it into a storage unit in 1996, said Total, the French oil group. Total Petroleum North America will take an after-tax charge of \$53m to cover the restructuring, which will appear under extraordinary items in the unit's annual accounts. The restructuring would reduce Total SA's 1995 net result by \$29m, the company said. *AFX, Paris*

## Philip Morris revamps food arm

Philip Morris, the US tobacco group, has restructured its international food business. Mr Louis Camilleri has been named president and chief executive officer of Kraft Foods International. The restructured Kraft Foods International will include four separate regional units - Kraft Jacobs Suchard Western Europe; Kraft Jacobs Suchard Northern Europe; Kraft Jacobs Suchard Central and Eastern Europe, Middle East and Africa, and Kraft Foods Asia/Pacific. *AFX, London*

## Bristol-Myers plans \$2.5bn cuts in next three years

By Richard Waters  
in New York

Bristol-Myers Squibb, the US pharmaceuticals group, yesterday announced a further round of cost-cutting to bolster profit margins in the face of patent expiries due in the coming years. The moves are also aimed at providing a stronger platform for acquisitions.

The company's biggest-selling drug, Capoten, loses its US patent in February, exposing it to generic competition. Meanwhile, despite the rapid growth of Taxol, a cancer drug, the company does not have as strong a pipeline of potential blockbuster drugs as some others in the industry. Taxol will also lose its patent at the end of 1997.

Yesterday, Bristol-Myers predicted

that Capoten's sales would fall to about \$1.2bn next year, from about \$1.5bn expected by analysts this year. The company predicted Taxol's sales would rise to \$750m in 1996, compared with \$410m in the first nine months of this year. The group predicted pharmaceutical sales of \$7.8bn for 1996.

While a number of US drug companies moved to trim costs two years ago in the face of slowing sales

growth and uncertainty over the direction of President Clinton's healthcare reform plans, Bristol-Myers has cut more than most.

In 1993, the company reduced its selling, general and administrative expenses - one of the main targets of cost-cutting - by about 13 per cent, though the figure crept up again the next year.

The next round of reductions will

aim to trim \$500m from expenditure next year, with annual savings rising to \$900m-\$1.1bn in 1997 and \$1.1-\$1.5bn in 1998. It will result in a restructuring charge of \$250-\$300m for the final quarter of 1995.

Bristol-Myers said the savings were intended, among other things, to release more resources for internal growth and to lessen the earnings dilution from future acquisitions.

## Quality opposition restarts Peruvian beer war

A growing economy and Cervecer's dynamism make prospects bright, writes Sally Bowen



Latin American brewing

When Peru's leading brewery, Backus & Johnston, acquired a controlling interest in its traditional heavy-weight rival, Compañía Nacional de Cerveza (CNC) in May 1994, it appeared the domestic "beer wars" - which had kept advertising account executives happy for years - were at an end.

But a new battle has broken out. Aggressive advertising in the past few months has propelled Cervecer's "Cusqueña" brand beer, brewed in the ancient Inca capital of Arequipa and traditionally drunk throughout the Andean highlands, into the Lima market.

By November, Cusqueña had captured almost 18 per cent of consumption in the capital (from 13 per cent at the start of the year) while Backus had hit back, invading Cervecer's southern stronghold.

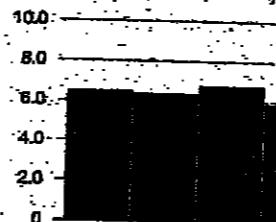
Peruvian breweries are, barring a small number of foreign investors through the Lima stock exchange, Peruvian owned. Imported beers are a rarity. The Backus Corporation dominates the market with Cervecer offering the only genuine competition. Combined beer sales this year should top \$400m, with Backus accounting for 63 per cent of total revenue, CNC for 31 and Cervecer for 16 per cent.

As in many Latin American countries, Peru's executives and the upwardly mobile prefer their alcohol in the form of whisky. But for the lower income groups, no gathering turns into a fiesta unless the beer flows freely.

The outlook for breweries is

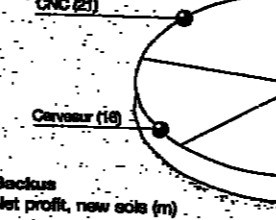
## Peru's beer market

National consumption (litres m)



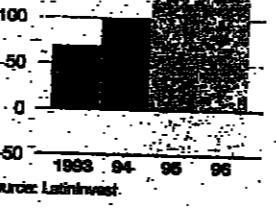
Source: Canadian

Market share, %



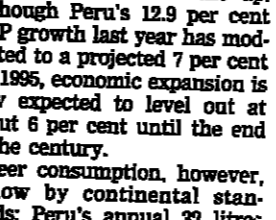
Source: Latinwest

Net profit, new sales (m)



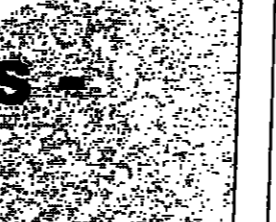
Source: Latinwest

Net profit, new sales (m)



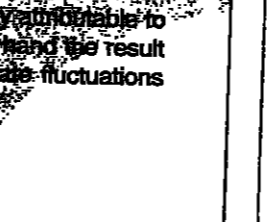
Source: Latinwest

Net profit, new sales (m)



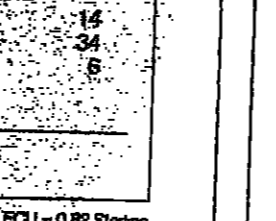
Source: Latinwest

Net profit, new sales (m)



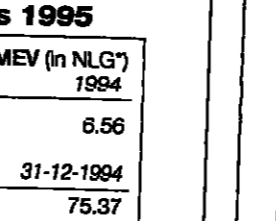
Source: Latinwest

Net profit, new sales (m)



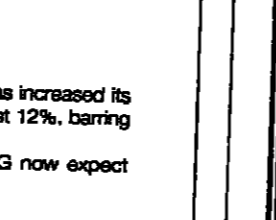
Source: Latinwest

Net profit, new sales (m)



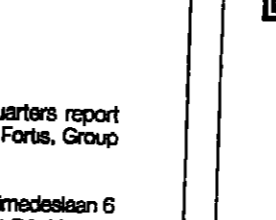
Source: Latinwest

Net profit, new sales (m)



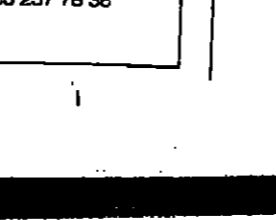
Source: Latinwest

Net profit, new sales (m)



Source: Latinwest

Net profit, new sales (m)



Source: Latinwest

Net profit, new sales (m)



## JP Morgan in Travelers insurance investment

By Richard Waters

J.P. Morgan is to invest \$300m in the new property/casualty insurance company being created by Travelers. It is one of the biggest private equity investments yet made by the US bank.

J.P. Morgan's planned stake is also the latest indication that a range of investors from outside the insurance industry are looking to invest in it. Private equity funds, including one run jointly by J.P. Morgan and Marsh & McLennan, have earmarked substantial amounts of capital to buy troubled insurance companies.

The investment announced yesterday, which will give the bank a stake of 3 per cent, is being made by Morgan directly, rather than through the fund. The stake matches a previously-announced investment in the new company by Aetna, the US insurer.

The company will be created from the property-casualty businesses of Travelers and Aetna, which has agreed to sell its operations to Travelers for \$4bn.

Travelers said it expected Morgan's investment to be the last large private stake to be taken in the new company. The remaining \$900m of equity the bank has said it plans to raise to help finance the purchase from Aetna is likely to come through a public listing for the new company's shares, in the spring.

Morgan's income from sales of investment jumped from \$306m in 1993 to \$663m in 1994, when other earnings came under pressure.

## Fortis: excellent results - higher forecast

Fortis in the first three quarters of 1995 again recorded excellent results. Net profit rose by 14% to ECU 469 million. Total income increased by 6% and operating result rose by 34%. This is mainly attributable to favourable developments in insurance and banking activities in the Benelux. On the other hand the result from health insurance in the United States fell more sharply than expected. Exchange rate fluctuations have, on balance, hardly affected Fortis' results in ECU.

## Fortis key figures first three quarters 1995

(in ECU million)	1995	1994	% Increase
Net profit	469.0	411.0	14
Operating result	717.8	535.8	34
Total income	12,693.4	11,972.7	6
	30-09-1995	31-12-1994	
Net equity	4,837.3	4,288.8	
Balance sheet total	110,863.2	103,497.2	

1 ECU = 0.82 Sterling

## Key figures parent companies first three quarters 1995

	Fortis AG (in BEF*)		Fortis AMEV (in NLG*)	
	1995	1994	1995	1994
Earnings per ordinary share	220	211	7.18	6.56
	30-09-1995	31-12-1994	30-09-1995	31-12-1994
Equity per ordinary share	2,350	2,138	82.91	75.37

100 BEF = 2.18 Sterling  
1 NLG = 0.40 Sterling

## Prospects

On the basis of the excellent results for the first nine months of the year, Fortis has increased its profit forecast for 1995 as a whole. It now expects a rise in the net profit of at least 12%, barring unforeseen circumstances and sharp fluctuations in exchange and interest rates.

On the basis of Fortis' increased profit expectation, Fortis AMEV and Fortis AG now expect earnings per share for 1995 as a whole to be clearly higher.

## Fortis: a united force in financial services

Fortis is an international financial group, consisting of a large number of companies in Europe, the United States and Australia. Fortis AG and Fortis AMEV are the two parent companies of Fortis. Each parent company has a 50% interest in Fortis.

Fortis

Fortis represents the joint activities of Fortis AG and Fortis AMEV

If you would like to receive a copy of the first three quarters report 1995 of Fortis and its parent companies, please contact Fortis, Group Communication:

Boulevard Emile Jacomijn 53  
1000 Brussels  
Belgium  
Tel.: 32 (0)2 220 93 49  
Fax: 32 (0)2 220 80 82

Archimedeslaan 6  
3584 GA Utrecht  
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The undersigned acted as financial advisors to PacifiCorp in this transaction.

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December 12, 1995

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New Issue

December 1995



## United Mexican States

**U.S. \$1,500,000,000**  
**LIBOR/Cetes Notes due 1996**

### Chemical Investment Bank Limited

#### Co-Lead Managers

Chase Investment Bank Limited  
 Merrill Lynch International Limited

Goldman Sachs International  
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#### Co-Managers

Bank of Boston S.A.  
 BT Securities Corporation  
 CS First Boston  
 Santander Investment  
 Société Générale

Bankers Trust International PLC  
 Citibank International plc  
 J.P. Morgan Securities Ltd.  
 SBC Warburg


**CHEMICAL**



50/100/150

INTERNATIONAL COMPANIES AND FINANCE

# Foster's targets Mildara with A\$482m bid

By Niklaid Tait in Sydney

Foster's Brewing Group, the Melbourne-based beer company, yesterday moved to diversify its Australian interests by launching a A\$482m (US\$365m) takeover bid for Mildara, the largest of the independent winemakers listed in Australia.

Mildara, which is also based in Melbourne and best-known domestically for its Wolf Blass labels and for the Black Opal/Black Martin/Black Silk brands in the US, said it would ask an independent expert to report on the offer, and advise shareholders after that.

However, although the Foster's bid price of A\$7.75 a share was pitched at a 22 per cent premium to Friday's closing price for Mildara, the wine-maker's shares rose slightly beyond the offer price. They ended the day at A\$7.85, although most analysts seemed to feel the Foster's offer was fairly pitched.

The bid is the first significant acquisition move by Foster's since it sold its Courage brewing business in the UK to Scottish & Newcastle for £425m (US\$649m) earlier this year. In recent years, Foster's has also been disposing of a wide range of non-core assets, using the proceeds to pay down debt.

Although A\$600m-worth of assets are still up for disposal, the company has been saying recently that the restructuring is now largely over. Once these final sales are factored in, it is largely unencumbered and thus feels able to expand.

The purchase of a domestic winemaker tallies with the future strategy for the group which Mr Ted Kimmel, chief executive, has been outlining.

He has talked about broadening the group's activities in Australia, through moves into the leisure industry and non-beverage assets, as well as international brewery expansion.

Last week, at a securities industry lunch, Mr Kimmel was asked specifically if wine could be an expansion area for Foster's, and he said it was something the group would have to look at.

Yesterday, Foster's chief executive added that the Mildara deal would give his company "good growth prospects in a related business". The existing Mildara management would remain and run the business as a new division of FBG, he indicated.

Mildara itself has been an acquisitive company in recent years, buying up a number of brands in the 1980s and merging with Wolf Blass in 1991.

Earlier this year it raised A\$44m in a rights issue, and Mr Brian Healey, chairman and also a Foster's director, stressed that the company was still on the acquisition trail.

Mildara's sales growth has been strong recently, despite the slower trading environment, and in the year to end-June, it saw a 29 per cent rise in after-tax profits to A\$23.1m.

Many analysts have favoured the company because of its good US sales presence and fairly secure grape supply arrangements - a big problem for some Australian wineries.

Mildara itself has talked of an annual earnings per share growth target of 10 per cent.

## Foster's Brewing

Share price relative to the All Ordinaries Index



Source: FBG

However, Foster's said yesterday it did not see Mildara making a meaningful contribution to FBG earnings until 1996-97, assuming the deal closes in February.

# Gencor celebrates centenary with surge of energy

The South African group is reaping the benefits of a more international outlook, writes Kenneth Gooding

Gencor is behaving in a very sprightly manner for a corporation that this year celebrates its 100th birthday. Last month it signed two big deals in three days, and there is more to come.

Mr Brian Gilbertson, chairman of the South African natural resources group, makes no secret of what tops his list of priorities. That issue is how to link Alusaf, the aluminium producer in which Gencor has a 41 per cent stake, with the bauxite and alumina operations of Billiton, a wholly owned subsidiary.

Bauxite and alumina are essential raw materials for aluminium production and Mr Gilbertson says: "If it was all in the same business it would be a very attractive business. Very cost competitive. All the companies that would be in the integrated business have good cash flows. Even at low prices they generate cash."

One obstacle was cleared away in August when Gencor agreed to pay US\$75m to the Royal Dutch/Shell group for the 30 per cent of Billiton on which Shell had an option.

Mr Gilbertson suspects that Alusaf shareholders would not be averse to their company merging with the Billiton operations to form the world's fifth largest integrated aluminium group. "I feel they might be happy to have a share in a bigger business."

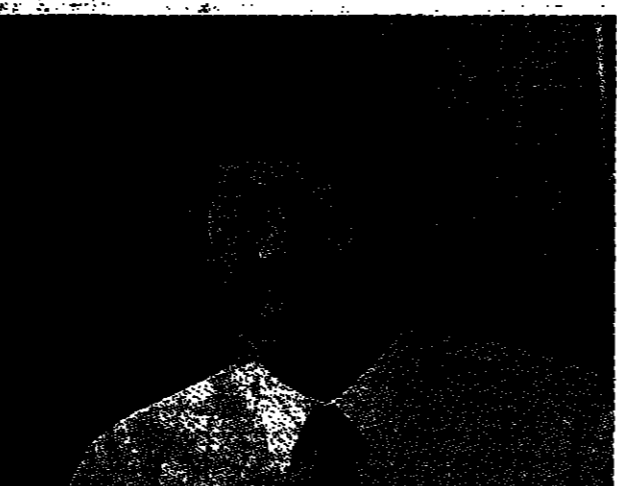
Another option would be for

Gencor to own the whole of the aluminium business. As well as the public shareholdings, this would also involve buying out Alusaf's other two big shareholders, Kekom, the electricity supply group with 8 per cent, and the South African Industrial Development Corporation, with 33 per cent.

The two deals signed in November were also strategically important for Gencor. One had been widely expected because it made such good industrial sense and first details were given in June. This was the agreement to merge Gencor's platinum interests with those of Lonrho, the UK-based conglomerate, to form the world's biggest platinum producer, using Impala as the vehicle. Gencor is swapping 48.5 per cent of a company producing 1m ounces of platinum a year for 32 per cent of one with an output of 1.5m ounces.

However, the other deal came out of the blue and was unprecedented in the long history of the South African gold industry. Gencor sold its interests in four gold mines to Randgold. In future, its South African gold division will concentrate on operations in the Ryandor and southern Free State areas.

The new management team at Randgold made the first approach, but, typically, Gencor approached quickly, once the proposal was made.



Brian Gilbertson: Gencor still burdened with exchange controls

It was not always so.

Less than 10 years ago Gencor was an unwieldy, bureaucratic conglomerate whose performance and rating were so poor that desperate institutional shareholders drafted in Mr Derek Keys in mid-1986 to give the business a thorough overhaul. He proved to be a good choice. When he left to become South Africa's finance minister five-and-a-half-years later, Gencor was a successful, entrepreneurial, decentralised group and its rating had improved substantially.

But it still suffered from the disadvantages that plague most conglomerates - its shares were trading at a big discount to net asset value, even a 30 per cent discount at some times. As the group was valued at about \$5bn this was a huge sum shareholders were not seeing. "We somehow are destroying shareholder value," Mr Keys would say despairingly to his fellow directors.

He floated the idea that Gencor should unbundle but this proved to be impossible during his time at Gencor because of tax complications. Eventually the fiscal legislation was changed and Gencor, not without some trepidation on the part of some directors, unbundled in 1990 to create a focused mining company.

According to Mr Gilbertson,

"that released a surge of energy among managers. It has been a huge success. The mining business we were left with is now worth more than the original group. Gencor now trades at a premium to asset value."

There were other important building blocks in Gencor's transformation. In South Africa in the past two years it built some world-class businesses, one through the platinum merger, another by increasing its shareholding in the Richards Bay Minerals mineral sands business so that it is now in 50-50 ownership with RTZ of the UK, and thirdly by merging Trans-Natal Coal with Rand Mines, two companies that made a perfect fit, to form Ingwe.

"That deal leapfrogged us from being good to being world class in the coal business," Gencor also took a one-third interest in the R3.5bn (\$54m) Columbus stainless steel venture, and in Alusaf's audacious R5.5bn project to build one of the world's biggest aluminium smelters.

This showed great faith in South Africa's future but, like Mr Keys before him, Mr Gilbertson saw the need for Gencor, which had most of its assets in that country, to become more international. As he saw it, this was an absolute necessity if Gencor was to compete effectively with other mining giants.

During South Africa's apartheid years Gencor geologists could not even visit most of the countries where the best mining opportunities were to be had. When the political environment changed there were some talks with Lonrho that came to nothing but then Gencor became aware that Shell might sell Billiton. It was a highly complex deal, partly because of South Africa's tight exchange control regulations, and took a year to complete.

Those exchange controls are still burdensome. Mr Gilbertson says Gencor missed out on another attractive deal because it could not get the cash together fast enough. Obviously Gencor for the time being has no intention of pausing for breath even if trying to weld its aluminium interests together takes top priority.

Analysts are enthusiastic about the transformed Gencor although they point out that the group was lucky with the timing of the \$1.1bn Billiton deal and start-up of the Alusaf smelter, both completed just in time to benefit from a sharp rise in the aluminium price. Most of its other ventures have also had remarkably smooth rides.

"Gencor has a small management team," said one analyst, "and, although it is an impressive team, it is fully stretched at the moment. I wonder how it would cope if something went badly wrong."

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<p>This announcement appears as a matter of record only.</p> <p><b>STATOIL</b></p> <p>Statoil (U.K.) Limited</p> <p>has purchased 100% interest in the Statoil (U.K.) Limited.</p> <p>from the Arco Energy plc</p> <p>The announcement is made in accordance with the provisions of the Companies Act, 1985, as amended.</p> <p>The Companies Act, 1985, as amended, requires the publication of this announcement in the London Gazette and in the London Stock Exchange's Official List.</p> <p>CHASE</p>	<p>This announcement appears as a matter of record only.</p> <p><b>THE WILLIAMS COMPANIES, INC.</b></p> <p>has purchased 100% interest in the Williams Companies, Inc.</p> <p>from the JAMES RIVER COAL COMPANY</p> <p>The announcement is made in accordance with the provisions of the Companies Act, 1985, as amended.</p> <p>The Companies Act, 1985, as amended, requires the publication of this announcement in the London Gazette and in the London Stock Exchange's Official List.</p> <p>CHASE</p>	<p>This announcement appears as a matter of record only.</p> <p><b>W. R. Grace &amp; Co.</b></p> <p>has purchased 100% interest in the W. R. Grace &amp; Co.</p> <p>from the Colowyo Coal Company LP</p> <p>The announcement is made in accordance with the provisions of the Companies Act, 1985, as amended.</p> <p>The Companies Act, 1985, as amended, requires the publication of this announcement in the London Gazette and in the London Stock Exchange's Official List.</p> <p>CHASE</p>

...the solution is Chase.



## COMPANY NEWS: UK

Institutions to get £400m of tax credits on their stakes

## Grid stakes sale raises £376m

By David Wighton  
and Antonia Sharpe

North West Water and Scottish Power sold their combined stakes in the National Grid for £376m (\$594m) yesterday as official trading in the transmission network's shares opened. The disposal, handled through a bookbuilding process by brokers Dresdner Kleinwort Benson and UBS, held back the Grid price which closed at 209½p, valuing the company at £3.54bn.

As a result, institutional investors are set to receive an estimated £400m-worth of tax credits on their shares in the Grid, which has been demerged by the 12 regional electricity companies.

Because the demerger is being treated as a dividend distribution, pension funds and other institutions which are tax exempt will be able to claim 52½p per share from the Inland Revenue. Non-tax-paying private shareholders and those who hold the rec shares in personal equity plans will get the same rebate.

Top-rate tax payers will face a 52½p bill on each share.

However, the sums will be less than had been expected because of the subdued closing price which forms the basis of the calculation. The closing price also determines the capital gains tax bill faced by the recs. Analysts said the moves by North West Water and Scottish Power had enabled them to realise a good price for their shares while depressing the market price and so minimising their tax bills.

The bookbuilding was successfully completed yesterday at a price of 208p, realising £208m for North West Water and £168m for Scottish Power before the brokers' undisclosed fees.

Southern Company of the US sold 25m of its holding of 108m shares to SBC Warburg for sale to institutions.

The City had been expecting early sales by some of the five recs which have retained their Grid holdings.

This group, which must sell their holdings within 12 months, comprises Southern



David Jefferies, Grid chairman: worth £3.65bn after first day

Electric and four of the recs which have been taken over: Norweb (acquired by North West Water), Manweb (by Scottish Power), South Western Electricity (by Southern Com-

pany) and Eastern (by Hanson). The early sellers are able to tap into demand from index funds which have to buy the stock because it has gone into the FT-SE 100 index.

## Goldman Sachs awards big pay increases

By Nicholas Denton

Goldman Sachs, the private US investment bank, has set the tone for remuneration in the City by nearly doubling performance-related pay on average in awards to be announced to staff today.

In London, Goldman's 33 partners and 20 high performing staff are expected to receive more than \$1m each, in addition to their basic salary. Bonuses at Morgan Stanley, another US investment bank which leads the pay season with a November year-end, are also expected to be up when announced today.

The awards underline the recovery in investment banking profits after the setback to the industry which followed the raising of US interest rates in early 1994 and consequent fall in bond markets. They re-establish investment banking's reputation as the highest paying profession.

Morgan Stanley and Goldman have both been lifted by a record level of acquisition activity in the US and Europe, which has generated high fees for advisers.

Despite the recovery, bonuses at Goldman are still below the level of 1993, when about 70 London executives

earned \$1m in performance-related pay. Then, administrative and support staff received a bonus of 30 per cent of basic salary, against 8 per cent in 1994 and 20 per cent in 1995.

Partners will not enjoy an immediate bonanza. They, unlike staff, take their share of profits in a credit to their "capital accounts". It bears interest but the accumulated pay can only be cashed in when a partner retires. This structure contributed to the large number of resignations from the partnership at the end of 1994, when poor profits had raised some partners' concerns about Goldman's prospects.

Goldman, in an internal memorandum last week, also told staff it would differentiate more strongly between individuals in determining pay in order to steepen incentives. But it said that individual performance would include the ability to work in a team and enhance others' work.

Mr Jon Corzine, chairman of Goldman, also said the firm stood by its principle of "mutual support". At Goldman more than many other investment banks, profitable activities, such as mergers and acquisitions in 1995 or trading in 1996, subsidise less well performing divisions.

## API at £8.4m helped by purchases and new products

By Christopher Price

Full year pre-tax profits at API increased 19 per cent from £7.01m to £8.35m (\$13.2m) as the packaging and coatings group benefited from new products and contributions from acquisitions.

Turnover for the year to September 30 rose 31 per cent to £104m. Operating profits rose 28 per cent to £8.4m, including £740,000 in the second half from three acquisitions made earlier in the year.

The increase came despite a decline in group margins from 8.5 to 8.1 per cent.

Mr Michael Smith, chief executive, said paper, board, polyester and film costs had risen by half during the year. "We hope we have seen base material prices peak, and the rate of increase has now begun to slow."

In the foils and laminates division, operating profits rose 38 per cent to £8.5m on sales also 38 per cent higher at £70.3m.

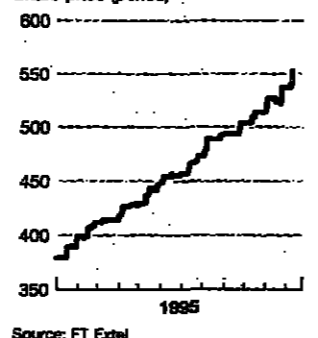
Cost savings and increased volume offset higher raw material prices, enabling margins to be maintained at 9.3 per cent.

Profits in the converted films, paper products and office consumables business rose 15 per cent to £3.7m, with sales 34 per cent ahead at £33.7m.

Mr Smith said the outlook for the current year was encouraging, with new investments allied with easing raw material price rises pointing towards an improved performance. New areas include paper metallisation, with the opening this week of a new 58m plant. API has also signed a deal with Polaroid to make

API Group

Share price (pence)



Source: FT Data

protective coating for X-Ray films.

Earnings per share rose 37 per cent to 27.4p.

The dividend, which is covered 2.7 times, is raised 10 per cent to 10p via a final of 5.93p.

## JFB back in black with £5.8m

By Tim Burt

Johnson & Firth Brown, the specialist engineer, yesterday announced a return to profit amid strong demand for commercial vehicle components and steel castings. The company, hit last year by heavy restructuring costs and losses on disposals, rebounded with pre-tax profits of £5.82m in the 12 months to September 30, against losses of £4.39m.

Mr David Hall, chief executive, said the improvement was fuelled mainly by UK subsidiaries making forgings, castings and rings for its Firth Rixson division. However the division had been hampered by manufacturing problems in the US, where the flat aero-engine market and failure to pass on raw material price rises contributed to undisclosed trading losses.

## Carclo rises 12% despite destocking

Carclo Engineering Group, the specialist steel and industrial wire manufacturer, yesterday reported a 12 per cent increase in first half profits despite signs of destocking among some industrial customers, writes Tim Burt.

Mr Ian Williamson, chief executive, said the figures would have been better had it not been for a disappointing performance in the general engineering division. The division was hampered by changing product specification for control cables and destocking by some customers.

Its lower contribution was more than offset by increased profits in the Lee steel division and the wire division.

Mr Williamson, recruited earlier this year from BBA Group, said this division was enjoying the benefits of last year's rationalisation, which involved the closure of its Belgian plant.

He hinted at further rationalisation following the group's recent £4.3m acquisition of Ashworth Brothers, the US card clothing business, which should enhance its presence in the North American market.

## LEX COMMENT

## Allied Domecq

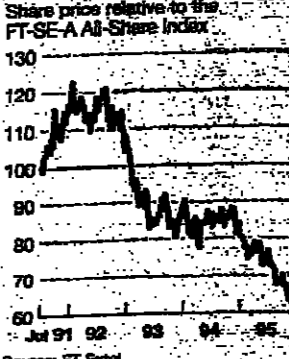
If Allied Domecq shareholders were to present incoming chairman Sir Christopher Hogg with a Christmas wish list, they should ask him to do three things: to inward-open the group's inward-looking culture, overhaul its spirits arm and get shot of the disastrous Carlsberg-Tetley brewing joint venture. Investors certainly have grounds for complaint. After a great deal of sound and fury - there have been transactions worth £2.5bn in four years, including the purchase of Domecq spirits and the sale of Lyons foods - underlying profits in 1996 will be virtually the same as in the past two years.

The shares have underperformed the market by almost 40 per cent since the present management team took over in July 1991. The strategy of focusing on retailing and spirits still looks sound, but timing has been poor. Growth in world spirits markets has slowed sharply. Domecq's profits are being hit by the Mexican peso's devaluation and the disposals will dilute earnings by about 5 per cent. Allied's spirits arm lags behind rivals like Seagram in aggressive cost-cutting and Guinness in powerful distribution. In the retailing division, outlets like Dunkin' Donuts have little in common with UK pubs. Carlsberg-Tetley has turned in the worst performance of all the big UK brewers.

Not all of this is the management's fault. Nor can it be put right overnight by a new chairman. But a look at Allied's board, almost all of whom are homegrown, suggests a need for fresh ideas to release the group's undoubted potential.

Allied Domecq

Share price relative to the FT-SE-100 All-Share Index



Source: FT Data

## UK side behind fall at Airtours

By Scheherazade Daneshkhu  
Leisure Industries Correspondent

Mr David Crossland, chairman of Airtours, the UK's second largest tour operator, said yesterday he expected the UK holiday market to contract by 15 per cent next year from 10m to 8.5m holidays sold.

Mr Crossland said he expected the price of UK holidays to rise by 8-10 per cent next year. He was speaking as the company reported a 22 per cent fall in pre-tax profits to £59.1m (£93.4m) for the year to the end of September.

The decline was less steep than investors had feared. Airtours issued a profits warning in the summer saying profits

could fall by up to 25 per cent. The shares rose 22p to 358p.

In its first full-year contribution, the Scandinavian Leisure Group, bought in June 1994 for £80m, contributed profits ahead of expectations at £25.1m.

This, and Mr Crossland's commitment to reducing Airtours' capacity by 15 per cent, pleased the market.

Mr Crossland said that Airtours, which bought Sunquest, a Canadian tour operator in August, was a broadly-based group of companies. It was continuing with its strategy to increase earnings from outside the UK to match those domestically and would continue to search for investments overseas.

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For further details on the Mercury Selected Trust-European Opportunities Fund, please call Myra Alletson in Jersey on +44 1534 600706 or fax on +44 1534 600687.

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## MERCURY DEVELOPMENT CAPITAL

Congratulates the management of six more portfolio companies who have floated this year

Company	Market Capitalisation
Biocompatibles	£217 million
Peptide Therapeutics	£81 million
Enterprise Inns	£59 million
Creos	£23 million
BTG	£144 million
VERO Group	£160 million

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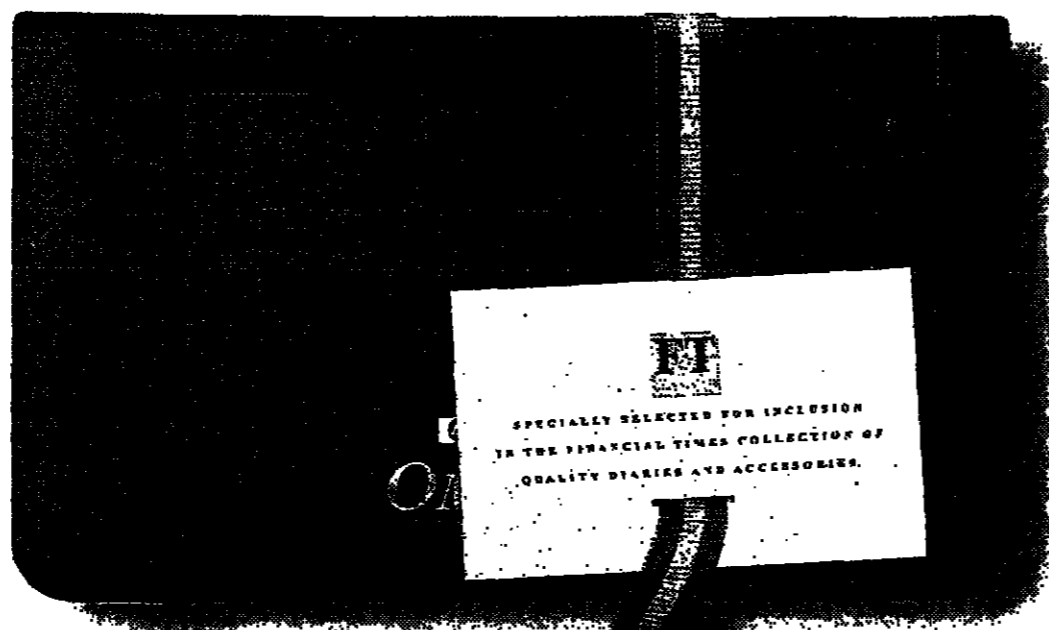
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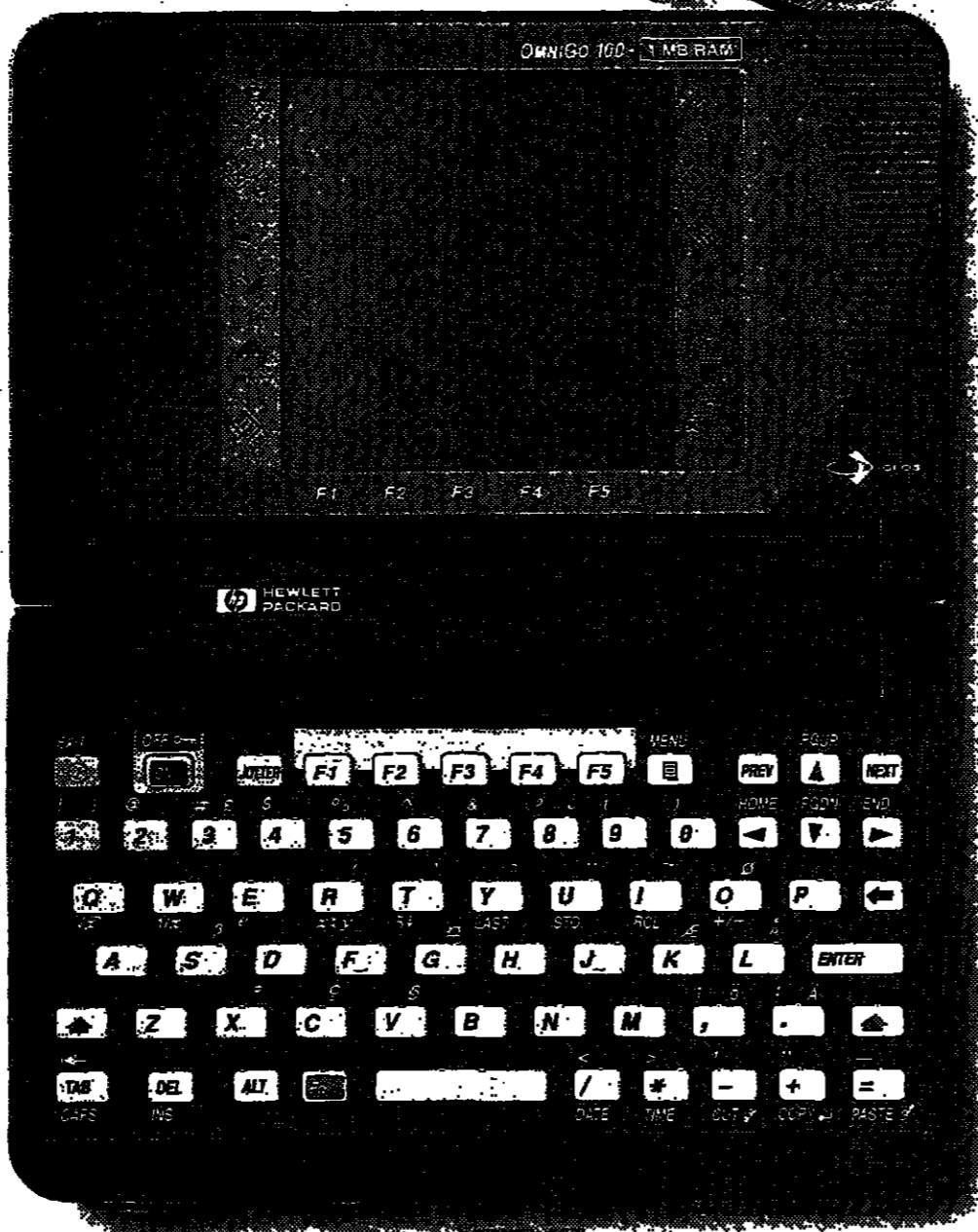
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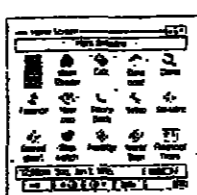
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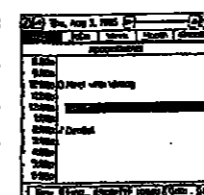


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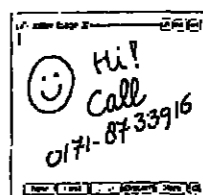
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PHARMACEUTICALS - Cont.										RETAILERS, GENERAL - Cont.									
Stock	Price	Chg.	52 week	High	Low	PE	Div.	Yield	Notes	Stock	Price	Chg.	52 week	High	Low	PE	Div.	Yield	Notes
Abbott Laboratories	112 1/2	+	52	114	108	16	1.00	3.2		Abbott Laboratories	112 1/2	+	52	114	108	16	1.00	3.2	
Alcon Laboratories	112 1/2	+	52	114	108	16	1.00	3.2		Alcon Laboratories	112 1/2	+	52	114	108	16	1.00	3.2	
Amgen Inc.	112 1/2	+	52	114	108	16	1.00	3.2		Amgen Inc.	112 1/2	+	52	114	108	16	1.00	3.2	
Baxter Inc.	112 1/2	+	52	114	108	16	1.00	3.2		Baxter Inc.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochem Inc.	112 1/2	+	52	114	108	16	1.00	3.2		Biochem Inc.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemical Products	112 1/2	+	52	114	108	16	1.00	3.2		Biochemical Products	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Inc.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Inc.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Corp.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Corp.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Ltd.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Ltd.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Int'l.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Int'l.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Group	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Group	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Ind.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Ind.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Corp.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Corp.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Ltd.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Ltd.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Int'l.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Int'l.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Group	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Group	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Ind.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Ind.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Corp.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Corp.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Ltd.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Ltd.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Int'l.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Int'l.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Group	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Group	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Ind.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Ind.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Corp.	112 1/2	+	52	114	108	16	1.00	3.2		Biochemicals Corp.	112 1/2	+	52	114	108	16	1.00	3.2	
Biochemicals Ltd.	112 1/2	+	52	114	108	16	1.												

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4 pm close December 11

**NYSE COMPOSITE PRICES**

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## AMEX COMPOSITE PRICES

*4 am close December 11*

[illegible]**NASDAQ NATIONAL MARKET**

#### 4. *How often?*

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